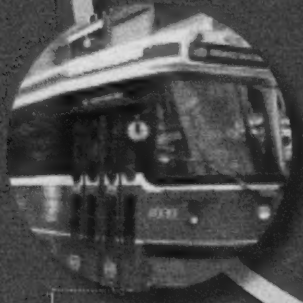
City of Toronto

LONG TERM Fiscal Plan



As approved by
Toronto City Council
April 2005

TORONTO

A report from the Deputy City Manager and
Chief Financial Officer

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Long Term Fiscal Plan

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A MESSAGE FROM THE DEPUTY CITY MANAGER AND CHIEF FINANCIAL OFFICER

I am pleased to present the City of Toronto's Long-Term Fiscal Plan, the first comprehensive report of this kind since the City's amalgamation in 1998.

City Council, at its meeting on April 21, 13 and 14, 2005 unanimously adopted the recommendations as contained in the staff report presenting the Plan.

In 2001 City Council adopted a Strategic Plan to set out an overall vision, together with a set of goals and directions, for the new City of Toronto. In 2002 a set of fiscal sustainability principles were added to Council's Strategic Plan. Further, a number of financial policies and funding strategies have been developed and implemented. Since 2003, staff from Corporate Finance and Financial Planning have been working on the Long-Term Fiscal Plan, under the direction of a special Council committee called the Ad Hoc Committee for the Development of a Long-Term Fiscal Plan, which built on earlier work done in this area since amalgamation. This comprehensive report is the culmination of almost two years of plan development, including setting of anticipated outcomes, problem identification and research, modelling of a long-term financial forecast, development of options, establishing the process for the resolution of specific issues, and the adoption of the comprehensive plan.

This plan provides a framework for guiding the annual budget and financial planning on a longer horizon, and forms a blueprint for discussions between the City and its funding partners including the other orders of government.

The Plan includes 24 financial strategies, 17 fiscal principles and five financial policies which are designed to address eight financial issues facing the City. With this comprehensive plan in place, and with successes to date and further funding discussions with the other orders of government, the City of Toronto is poised to achieve fiscal sustainability, and continue to grow and compete as one of the top cities in North America's economy.

Joseph P. Pennachetti
Deputy City Manager and Chief Financial Officer

Executive Summary

The City of Toronto, being the largest municipal government in Canada, is financially sound and has a good credit rating. It has the most diversified economy in North America, and is the top tourist destination in the country.

Yet, Toronto has three fundamental financial problems:

- Expenditure pressures due to ageing infrastructure, unique demographic mix associated with being Canada's largest and most diverse City, over-inflationary cost increases for many items and continuously increasing demand for services
- Insufficient revenue growth to support growth in operating and capital requirements, due to legislatively restricted access to non-tax revenue sources, exacerbated by relatively weak commercial/industrial tax competitiveness and weak overall assessment growth
- Asset degradation due to insufficient funding, and growing liabilities to provide for future costs, particularly in the area of employee benefits.

The financial plan to correct these problems over a ten-year horizon will require:

- continued vigilance on cost control – productivity increases for items that can be controlled and monitored, e.g. Continuous Service Improvement Initiatives and restrained salary cost increases
- securing new sources of revenues that grow over time, adjusting service funding responsibility, and property tax reform as part of a longer term competitiveness strategy
- ongoing financial support for infrastructure state of good repair and reserve funding
- recognition by other orders of governments that Toronto requires solutions that may not fit other municipalities
- investment in strategies that promote core development in the GTA: GO Transit enhancement, live/work development, destination based planning (waterfront park, support for retail establishments) and support for transit.

Premises of the Plan

Premises of the Plan:

- Toronto has unique characteristics that will require unique solutions
- The City has to manage, and be seen to be managing, its own affairs in a rigorous and efficient manner
- The City has embarked on a number of City-led initiatives, such as Continuous Service Improvement, program priority setting, business plans, performance measures and benchmarking, establishing financial policies and controls, hiring freeze and the establishment of the Auditor General position.
- Other orders of government must be further convinced to recognize the importance of supporting the City – this plan is intended to show that the City has a clearly articulated way out of the current problems that includes them as integral partners.

Ad Hoc Committee for the Development of a Long-Term Fiscal Plan

City Council, in January 2004, established the Ad Hoc Committee for the Development of a Long-Term Fiscal Plan, to continue the work of the previous Ad Hoc Committee for a Five-year Fiscal Plan established in 2003 which ended with the previous term of Council. The purpose of the Ad Hoc Committee is to structure a Long-Term Fiscal Plan for the City of Toronto, with such Plan to be submitted to Council as a blueprint for future budgeting and discussions with funding partners. The Ad Hoc Committee reports to Council through the Policy and Finance Committee, and is responsible for developing fiscal policies to guide multi-year financial planning within the context of Council's Strategic Plan and other sectoral plans. It provides input to the setting of Council priorities, informs and provides context to the annual budget process, and provides a framework for future-year financial planning. This document "Long Term Fiscal Plan" is the first comprehensive staff report submitted to Council through the Ad Hoc Committee.

Plan Outline

This Long-Term Fiscal Plan consists of:

- the goals of fiscal sustainability, the relationship between the Long-Term Fiscal Plan, the Strategic Plan and other sectoral plans, and the linkage between the long-term plan with the annual budget process;
- an environmental scan, i.e. assessment of the City's economic & socio-demographic environment;
- the history and an analysis of the City's financial condition;
- multi-year financial forecasts and the options to close the gap;
- a description of the financial issues that have been identified, the symptoms of these issues, the preferred outcomes, and the recommendations to address these issues in the form of financial strategies, fiscal principles and financial policies; and
- plan implementation and the future work plan.

Eight issues have been identified

A total of eight key financial issues have been identified, which can broadly be grouped under three major categories – Expenditures, Revenues, and Assets and Liabilities:

A list of recommendations has been developed to address these eight issues. They are summarised below:

Expenditure Issues & Recommendations

ISSUE 1

The City of Toronto has a higher cost structure than other municipal governments in the rest of GTA, e.g. Police, transit, social assistance, social housing, and debt charges.

RECOMMENDATIONS

Strategies

1. The City should continue to engage in Continuous Service Improvement.
2. The City should continue to exercise fiscal restraint.
3. The Federal Government should pay for the full costs of Federal programs which impact Toronto.
4. Program specific funding transfers from other orders of government should recognize the City's higher cost structure with respect to those services.

Principles

1. All activities should be reviewed in the context of affordability (*new*).
2. All new initiatives should be accompanied by a business case and a timetable for a post-implementation review and/or sunset provision (*new*).
3. The cost of servicing new debt should not negatively affect the City's credit rating which should be maintained at the current level (AA for long-term debt) or higher (*revised based on Council's Strategic Plan January 2002*).

Policies

1. City programs will be reviewed periodically to assess their relevance to current City priorities, objectives, their effectiveness and efficiency.

ISSUE 2

Demands for growth as laid out in the Official Plan or other Sectoral and program plans are not adequately funded.

RECOMMENDATIONS

Strategies

1. Plans for growth should be implemented consistent with the affordability level.
2. Other orders of government should provide the City with adequate financial resources to support TTC's growth requirements.
3. The City request the Province of Ontario to amend the Development Charges Act:
   (a) so that no municipal services are excluded from the development charge calculation;
   (b) to allow municipalities to adopt service levels that are in keeping with Council-approved long-term service plans for the purposes of calculating development charges, instead of the average service levels during the 10-year period immediately preceding the preparation of the background study, as allowed under existing legislation; and
   (c) so that the 10 per cent service discounts are removed.

Principles

Investment in new infrastructure should be based on analysis of shifts in demographic growth and existing unmet needs (*per Council's Strategic Plan January 2002*).

Policies

Approval of updated Development Charges By-law *(adopted by Council June 2004)*

ISSUE 3

There is variability in certain program expenditures from year to year.

RECOMMENDATIONS

Strategies

1. Target balances and financing plans should be established for each reserve and reserve fund, and should be based on the purpose on which the fund was based.
2. There should be periodic reviews of the relevance and adequacy of each major reserve and reserve fund.

Principles

1. Reserves and reserve funds should be used to fund anticipated potential liabilities, stabilizing (smoothing of) revenues and expenditures that are subject to cyclical fluctuations, extraordinarily large purchases, or self-financing on-going activities (*revised based on Council's Strategic Plan January 2002*).

Policies

Reserve Fund By-Law (Municipal Code 227) specifies the use of each reserve and reserve fund.

Revenue Issues & Recommendations

ISSUE 4

Business taxes are not competitive.

RECOMMENDATIONS

Strategies

1. The Province should provide business education tax relief by lowering the business tax rates to the GTA average.
2. The City should have the flexibility to rectify or re-dress tax ratios between business tax rates and those on residential properties.

Principles

In June 2004 City Council adopted the following guiding principles relating to property tax policies:

1. Tax ratios are an important measure of tax fairness and equity between the various property classes. Reasonable targets for tax ratios should be set, and tax policies regarding budgetary levy increases and tax ratio-related tax burden shifts between classes should be made with a view of respecting and achieving these targets over a reasonable period of time.
2. The current capping regime is ineffective and will prolong historic tax inequities. However, any changes to the capping program in order to facilitate the transition to Current Value Assessment (CVA) should have regard for maintaining a manageable pace of change for property owners. A longer transition period should be available for those properties facing large increases.
3. Property tax protection for vulnerable business must be developed in conjunction with any other changes that facilitate the transition to CVA, with a view to achieving equity to the extent possible between various property types, objectivity in defining eligible properties, longer-term stability and certainty for property owners, and transparency in administration.
4. A view to achieving equity and fairness in tax rates for both the municipal and education portion taxes should be taken. The Province must be encouraged to show its commitment to reduce Toronto's business education tax rate disparity vis-à-vis the surrounding GTA municipalities.

In addition to the four guiding principles per above:

1. Affordability of a tax increase should first be viewed in the context of general inflation and/or the growth in the economy, consistent with the changes in the costs of maintaining or enhancing existing service levels (*new*).
2. Tax increases should be based on service level costs and provide flexibility for taxpayers with limited fixed incomes (*per Council's Strategic Plan January 2002*).

Policies

Pending – as part of an upcoming report to the Policy and Finance Committee (in 2005)

ISSUE 5

The City lacks adequate revenue sources to fund its municipal responsibilities.

RECOMMENDATIONS

Strategies

1. Current sources of financing should be reformed, e.g. property taxes, development charges
2. Alternative revenue sources should be explored, e.g. share of sale taxes
3. Other orders of governments should provide the City with new revenue sources, e.g. sharing of fuel taxes, new tax tools through enabling legislation, and sharing of consumption taxes.

Principles

1. Innovative approaches to financing services should be considered before using property tax financing, i.e. property tax is the funding source of the last resort (*new*).

2. The pricing of user fees should generally take into consideration of the full cost of the service (direct, indirect and the cost of capital) (*new*).

Policies

None identified to date

ISSUE 6

Improper funding of Provincial cost-shared programs has resulted in significant financial pressures for the City:

- **Capping of Provincial share**
- **Tentative capping of GTA pooling revenues**
- **Social service costs / risk exposure**

RECOMMENDATIONS

Strategies

1. Income distributive programs should be fully funded from the income tax base (of the Provincial / Federal Governments).
2. The City should prioritize its programs and services, and focus on its core responsibilities.
3. Program and funding responsibilities of current services should be rationalized with other orders of government.
4. Funding from other orders of government should equal program commitment.

Principles

1. The property tax base should not be used to fund income distributive programs (*new*).

Policies

None identified to date

Asset & Liability Issues & Recommendations

ISSUE 7

City's investment in its ageing infrastructure has been lagging.

RECOMMENDATIONS

Strategies

1. Funding priority should be given to physical infrastructure's State of Good Repair over Growth.
2. Funding priority should be given to preventive maintenance to reduce replacement cost.
3. Strategic investment in physical infrastructure should be given priority to maintain City residents' quality of life.
4. Strategic asset management policies should be employed.

Principles

1. Infrastructure should be replaced when it can be demonstrated that the replacement cost and subsequent maintenance cost are less expensive than maintaining the existing asset in a state of good repair over the same period of time (*revised based on Council's Strategic Plan January 2002*).

2. Debt repayment period should not exceed the useful life of the asset for which the debt is incurred (*per Council's Strategic Plan January 2002*).

Policies

1. **Policy on Management of Operating Budget Surpluses *(approved by Council in September 2004)*:**

   (a) The surplus carried forward should be zero by the 2007 fiscal year and this is accomplished by reducing the surplus carried forward in 2005 to a target level of $10 million, in 2006 to $5 million and 2007 to zero *(deferred for consideration during the 2005 budget process)*;

   (b) For the fiscal 2004 surplus, if any, the Chief Financial Officer and Treasurer is authorized, consistent with item a above, to apply any additional surplus entirely to the Capital Financing Reserve Fund;

   (c) Starting with fiscal 2005, for any surplus, the Chief Financial Officer and Treasurer[1] is authorized, consistent with item a above, to apply any additional surplus, in priority order to:
   - Capital Financing Reserve Fund (at least 75 per cent of the additional surplus); and
   - the remainder to fund any under-funded liabilities, and/or reserves/reserve funds, as determined by the Chief Financial Officer and Treasurer; and

   (d) The Chief Financial Officer and Treasurer report such contributions as per items b and c to the Budget Advisory Committee, Policy and

[1] Effective April 15, 2005, the Chief Financial Officer and Treasurer has become the Deputy City Manager and Chief Financial Officer under corporate restructuring.

Finance Committee and Council following the closing of the accounts for the prior year.

2. As a guideline, debt service charges should not exceed 10 per cent of net property tax levy *(approved by Council in February 1998).*

ISSUE 8

Employee Benefits and other liabilities are not adequately funded.

RECOMMENDATIONS

Strategies

1. Financial risks should be recognized and properly funded.
2. Funding for underfunded liabilities should at least be increased in the next five years to ensure the current gaps do not widen.
3. Work is in progress to quantify environmental liabilities.

Principles

1. Reserves and reserve funds should be funded to the levels required for their purposes.

Policies

None identified to date

Plan Implementation

As part of the future work plan, as issues arise staff will develop appropriate financial strategies, principles and policies to be incorporated into the Long-Term Fiscal Plan. It should be noted that some policies may require further review and will be brought forward in 2005.

The City has established 14 Fiscal Sustainability Principles as part of Council's Strategic Plan dated January 2002 and a number of financial policies, such as the policy on management of Operating Budget surpluses. In order for Council and its Committees to be cognizant of them on a day-to-day basis when making subsequent decisions, it would be appropriate to have a mechanism within the current procedures, or through an amendment to the current procedures, which would make it clearer to Council that policies were in place which impacted on a proposition currently before a Committee or Council, or a mechanism which could prevent a Committee or Council from over-riding a previously approved policy or principle established by Council.

A Council Working Group on the Procedural By-Law and the Meeting Management Initiatives was struck subsequent to Council's meeting of September 28, 29, 30 & October 1, 2004, which adopted the staff recommendations in Clause No. 35 of Policy and Finance Committee Report No. 7 entitled 'Member Requests for Information and Review of Council Procedures Regarding Various Matters'. The report recommended that a working group of Councillors and the City Clerk be established to conduct a review, and where necessary, redesign Chapter 27, Council Procedures, of

the City's Municipal Code to meet Council's needs and respond to its priorities, be understandable to all stakeholders, result in clear decisions and transparent decision making and support the implementation of Council's meeting management initiative. Municipal Code Chapter 27 Council Procedures governs the conduct of business for Council and its Committees. Subsequently, the Chief Financial Officer and Treasurer sent a communication to the City Clerk, conveying the concerns of the Ad Hoc Committee about the current procedures and requesting that the Working Group give consideration to strengthening the force of financial principles, policies and plans.

In the same communication, the Chief Financial Officer and Treasurer also requested the Working Group consider incorporating the financial protocols from the joint report of the Chief Administrative Officer and the Chief Financial Officer and Treasurer entitled 'Financial Control Protocols within the Revised Council-Committee Structure' adopted by Council on July 27 - 30, 1999 into the Procedural By-Law.

The Deputy City Manager and Chief Financial Officer will develop, review and update fiscal strategies, principles and policies as the work plan is carried out and each issue sub-component is reviewed, and report back to Council through the Policy and Finance Committee.

The adopted financial principles, policies and financial control protocols will be incorporated into the annual budget guidelines so that both staff and Councillors can have easy access and reference to these financial principles and policies during budget deliberations.

The Long-Term Fiscal Plan will be reviewed and updated periodically.

Section 1: Introduction

The Long-Term Fiscal Plan (LTFP) is the first comprehensive financial plan developed by the new amalgamated City of Toronto. It contains statements of strategies, principles and policies to guide financial decision-making by the City of Toronto as well as providing a ten-year financial projection. The goal is to ensure the City is in sound financial condition and can finance services to the public on a sustainable basis.

Ad Hoc Committee for the Development of a Long-Term Fiscal Plan

In February 2003 City Council established the Ad Hoc Committee for a Five-Year Fiscal Plan, the purpose of which was to structure a Five-Year Fiscal Plan for the City of Toronto, with such Plan to be submitted to the 2004 Council as a blueprint for future budgeting and discussions with funding partners. The seven member committee held three meetings in June, July and September of 2003. It deliberated and received staff presentations and reports on the Five-Year Fiscal Plan, including proposed approach and work plan, preliminary strategies on asset and liability funding, expenditure control and revenue enhancement, preliminary five year operating forecast and the proposed sustainable funding from senior governments. The committee built on and co-ordinated the work done by staff to date.

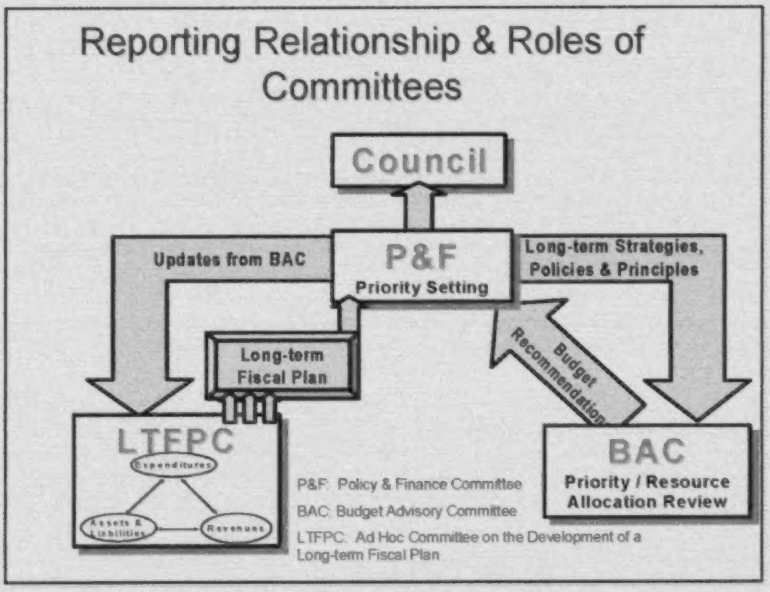
At the September 18, 2003 meeting, the Ad Hoc Committee adopted a joint report titled "Status Report on Five-Year Fiscal Plan" from the Chief Administrative Officer and the Chief Financial Officer and Treasurer. As well, the Committee received a presentation summarizing the work done to-date.

At the January 27, 28 and 29, 2004 meeting, the new City Council adopted a recommendation that "the name of the Ad Hoc Committee on the Development of a Five-Year Fiscal Plan be changed to "Long-Term" Fiscal Plan, and the committee be re-established" reporting to Council through the Policy and Finance Committee.

The membership listing of the Ad Hoc Committee for the current Council term is contained in Appendix A.

The Ad Hoc Committee scheduled four meetings in 2004, with the comprehensive report tabled at the final December 2004 meeting.

The Ad Hoc Committee is responsible for developing fiscal policies to guide multi-year financial planning within the context of Council's Strategic Plan and other sectoral plans, e.g. Economic Development Strategy, Social Development Strategy, and other long-term service plans. It provides input to the setting of Council priorities, informs and provides context to the annual budget process, and provides a framework for future-year financial planning. The relationship between Policy and Finance Committee (P&F), the Budget Advisory Committee (BAC) and the Long-Term Fiscal Plan Committee (LTFPC) is represented in the following schematic diagram.



The Terms of Reference of the Ad Hoc Committee requires it to develop a Long-Term Fiscal Plan for the City of Toronto, which is to be used as a blueprint for future financial planning and discussions with funding partners. The approach used in describing the plan is to categorize the strategies according to the three elements of the financial statements.

- Expenditure Strategies
- Revenue Strategies
- Asset and Liability Funding Strategies

More specifically, it includes the following:

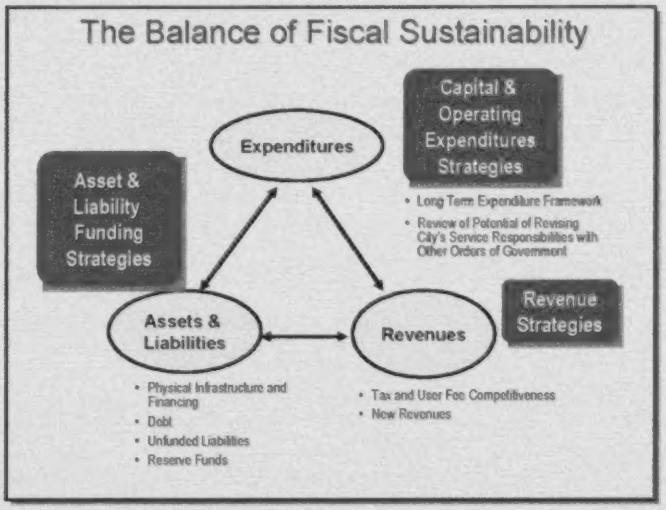
A. Expenditure Strategies
   1. Longer term expenditure framework;
   2. Review of the potential for revising the City's service responsibilities with other orders of government;

B. Revenue Strategies
   1. Property tax competitiveness and related property tax strategies to maximize the property tax base;
   2. Sustainable and targeted funding sources from other orders of government;
   3. Other revenue strategies and policies;

C. Asset and Liability Funding Strategies
   1. Long-term capital financing strategies
   2. Asset and liability funding strategies

The Balance of Fiscal Sustainability

The success of the Long-Term Fiscal Plan depends on a balancing of the three components, similar to a three-legged stool, to achieve long-term fiscal sustainability. For example, excessive cost reductions on the expenditure side will result in degradation of physical infrastructure through deference of asset replacement or increasing maintenance backlog. Another example is that higher property taxes for residents and businesses will lower the City's tax competitiveness, which will have a negative impact on the City's credit rating, which in turn will make it harder for the City to borrow money to fund its capital asset funding requirements. The following diagram provides a schematic representation of the balancing of the three components.

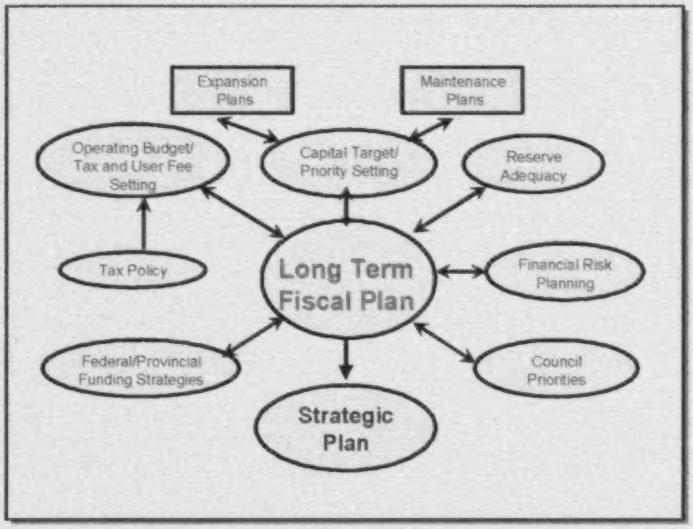

The Balance of Fiscal Sustainability
Expenditures
Capital & Operating Expenditures Strategies
• Long Term Expenditure Framework
• Review of Potential of Revising City's Service Responsibilities with Other Orders of Government
Asset & Liability Funding Strategies
Assets & Liabilities
Revenues
Revenue Strategies
• Physical Infrastructure and Financing
• Debt
• Unfunded Liabilities
• Reserve Funds
• Tax and User Fee Competitiveness
• New Revenues

Another concept which is important in the overall plan is the balancing of Stabilization Strategies versus Growth Strategies. The former are those strategies which stabilize the City's financial condition and may include all of the three types of strategies. The latter are those that promote service growth or service level enhancement, or those that enable the City to grow in size. Priority should be given to stabilize the City's foundation to put the corporation on sound financial footing, before consideration is given to allowing for growth and service expansion.

Linkages with the Strategic Plan and the Annual Budget Process

The Linkage with the Strategic Plan:

Since amalgamation, the City has engaged in a strategic planning exercise. A strategic plan must have a financial component in order to provide for a realistic outcome. This document attempts to put the City's financial condition in perspective, to discuss the current trends and to develop strategies consistent with the overall strategic direction of the City.



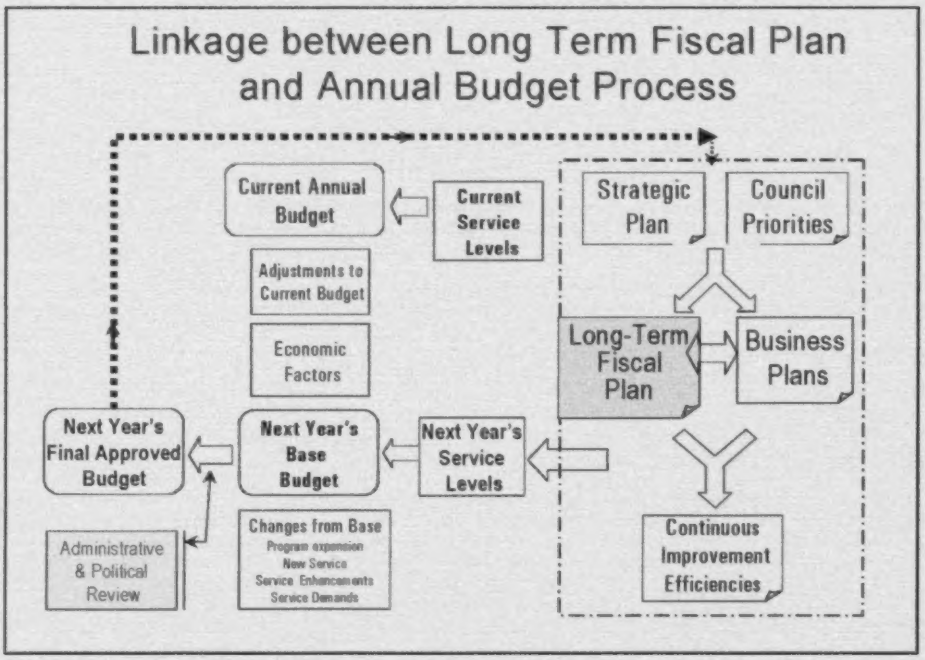
The Toronto City Council's Strategic Plan provides Council's visions and goals for the City, and serves as a framework document that guides major planning initiatives in the City. The Strategic Plan dated January 2002 contains a section on the Fiscal Context and Fiscal Sustainability Principles (adopted by Council in December 2001), which help in determining how the financial levers within the City's control are used in the ongoing management of financial pressures, and provide guidance to the City's service planning and budgeting activities. The fiscal principles also build on those goals and directions in the Strategic Plan that relate to stewardship of assets, financial planning and sustainable finances. Appendix F provides a list of the Fiscal Sustainability Principles as contained in the Council's Strategic Plan.

The Linkage with the Annual Budget Process:

The Fiscal Context and Fiscal Sustainability Principles, as contained in the Long-Term Fiscal Plan, which has an approximate time-line of ten years, are built on the directions and principles in the Strategic Plan, as well as Council priorities. Consistent, short-term directions are developed and approved annually as part of the budget process.

The ten-year financial projections in the Long-Term Fiscal Plan will be updated periodically to incorporate and reflect any updates to Council priorities, the business plans and any changes in the City's economic and financial position.

The linkages amongst the Strategic Plan, the Long-Term Fiscal Plan, and the annual budget process are depicted in the following figure.



Long-term Fiscal Plan: Purpose, Objectives and Anticipated Outcomes

Purpose:

The Long-Term Fiscal Plan is a framework to guide the City's departments, agencies, boards and commissions in their planning and decision-making process to ensure that the City:

- protects and maintains its assets;
- accounts for and minimizes its liabilities;
- has sustainable cash flows in the long term;
- maximizes its financial flexibility;
- minimizes financial vulnerability e.g. to economic downturns;
- maintains programs and services at their desirable standards; and
- remains competitive in the global economy.

Objectives:

The Long-Term Fiscal Plan has the following objectives:

- Anticipate future operating and capital requirements
- Reasonably estimate reserve and debt levels
- Reasonably predict tax rates
- Develop targets for service levels with financial implications
- Form a basis for discussions with other orders of government impacting City's finances

Anticipated Outcomes:

The anticipated outcomes of the Long-Term Fiscal Plan are:

- Strategies, policies and principles that would help guide and strengthen the fiscal health of the City

City's Financial Condition — Vulnerability, Sustainability and Flexibility

City's Financial Condition:

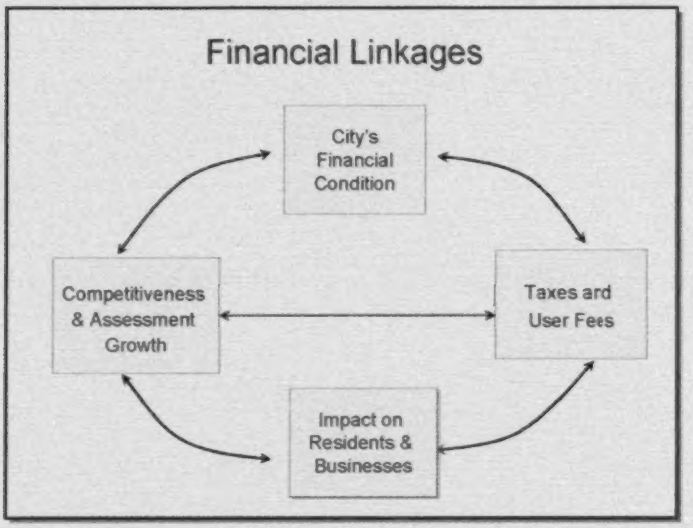
According to the Canadian Institute of Chartered Accountants, a government's financial condition can be defined as the combination of the following three aspects:

- Vulnerability – the dependence of a government upon expenditures and revenues not under the government's control
- Sustainability – the ability to maintain programs and infrastructure without increasing debt or running down physical or financial assets
- Flexibility – the ability to fund rising commitments with additional revenues or new debt

Alternatively, financial condition is the predictability of the City's cash flow to meet current and long-term obligations including debt service, and its capacity to respond favourably to uncertainties. It involves:

(a) assessing the state of repair and replacement cycles for the City's infrastructure and assets such as buildings, vehicles, roads, bridges, sidewalks, water and sewer mains, telecommunications networks, data warehouses, etc.;
(b) determining the appropriate level of reserves and reserve funds to deal with future liabilities and exigencies and assessing whether current levels are adequate;
(c) being prepared for contingent liabilities and other future risks which might not be determinable at this point in time; and
(d) assessing the City's ability to meet demands for the range and quality of services expected by taxpayers and other stakeholders such as tourists.

The following figure represents the way the City's financial condition is closely linked with taxes and user fees, their impacts on residents and businesses, business competitiveness and assessment growth.



Goals for Long-Term Fiscal Sustainability

Fiscal sustainability is the ability to maintain services and infrastructure while at the same time maintain other aspects of a healthy "balance sheet": This includes but is not limited to the following:

- maintain or improve international competitiveness of the City
- maintain credit rating at the current level or higher
- stabilize or reduce the debt level
- properly fund liabilities
- properly maintain and fund the State of Good Repair of physical assets
- maintain or improve returns on financial assets
- maintain competitive property tax rates and user fees
- stabilize or control program costs
- deliver services in a cost-effective manner
- provide competitive compensation for City staff
- implement proper procedures to maintain fiscal sustainability

Work on long-term financial planning has been on-going

Since amalgamation, staff have reported on a variety of subjects germane to assessing the City's financial condition and the consequences thereof, such as the strategic plan, a potential City Charter, improved legislative framework and a variety of reports by the Finance Department on aspects of the City's financial position. These include reports on assessment and taxation, capital financing and debt trends, reserve/ reserve fund adequacy, unfunded liabilities, and surplus management, to name a few. Appendix D provides a summary of recent reports that include components of a financial plan.

2A. Environmental Scan

What is Toronto?

Toronto:

- Is the 5th largest City in North America by population behind Mexico City, Los Angeles, New York and Chicago
- is the 3rd largest financial centre in North America by employment (behind New York and Chicago), employing 176,000 in the financial sector
- is home to 90 per cent of Canada's foreign banks, and its top accounting and mutual fund companies, and 80 per cent of Canada's largest R&D, law, advertising and high-tech firms
- is home to seven of the top 10 information technology companies, including the Canadian headquarters and research centres of Apple, Hewlett-Packard and Sun Microsystems
- has North America's 3rd largest stock exchange by value traded
- has more than 76,000 businesses generating a gross domestic product of $98 billion and employing over 1.3 million people
- is home to 40 per cent of Canadian companies on Fortune's Global 500
- is the nation's largest employment centre, with one sixth of Canada's jobs, and has strong employment in both manufacturing and service industries
- has the 4th highest concentration of commercial software companies in the world, and is one of North America's hottest animation centres
- has one of the best telecommunications networks in the world, with one of the highest per centage of fibre optic cable installed, and more wireless phones per capita, than anywhere in North America
- is the 3rd largest English-language theatre centre in the world behind London and New York
- is considered "Hollywood North" by film industry: 3rd in TV and film production, and 2nd as exporter of TV programming in North America
- is Canada's #1 tourist destination with 16 million tourists per year (9 per cent of Canada's total arrivals)

What is the current national and local economic environment?

Canada

Canada has managed to match or exceed U.S. economic growth in seven of the last ten years, but will likely fall behind it in the near term. On the upside, stronger U.S. economic activity will create opportunities for Canadian exporters.

The extent of the growth may be restrained by a number of hurdles. While a reinvigorated U.S. economy generally implies increased demand for Canadian exports, they may be negatively affected by the appreciation of the Canadian dollar. Rising interest rates and higher-than-expected crude oil prices will also be restraining influences on the economy. Housing construction may suffer the most, weakening purchases of furnishing and appliances.

Tight public spending, arising from the size of provincial government deficits, such as Ontario, will mean the Federal fiscal restraint period may be longer than expected, limiting overall economic growth.

These negative influences will be counterbalanced by increasing investment and employment activities as Canadian firms address capacity concerns.

On a government basis, according to the Organization for Economic Co-operation and Development (OECD), Canada is projected to be the only G-7 country to record a surplus in both 2004 and 2005, continuing the trend set in 2002 and 2003.

According to the Spring 2005 issue of the Metropolitan Outlook by the Conference Board of Canada, economic growth as measured by the Real Gross Domestic Product (GDP) is projected to rise from the 2.5 per cent in 2004 to 2.8 per cent in 2005 and to 2.8 per cent in 2006, trailing behind projected U.S. growth of 3.4 per cent in 2005 & 3.2 per cent in 2006.

Ontario

The urban portion of Southern Ontario including the Greater Toronto Area accounts for one-half of the manufacturing activities in Canada. A major employer is the auto industry with benefited from export demand for Canadian built models.

After a year of economic slowdown in 2003 (due to of a number of shocks including the SARS outbreak and the mid-August power blackout), the Ontario economy including the export sector bounced back in 2004, with GDP growth increasing from 1.8 per cent in 2003 to 3.1 per cent in 2004. Yet, according to the Conference Board, Ontario's economic performance will be held back in the near-term by the high level of the Canadian dollar, higher-than-expected crude oil prices, weak government spending, and rising interest rates in the U.S. and Canada.

The export sector continues to feel the effects of the strong Canadian dollar, limiting the overall economic growth. The good news is that the labour market is strong, and income gains will translate into steady spending activity.

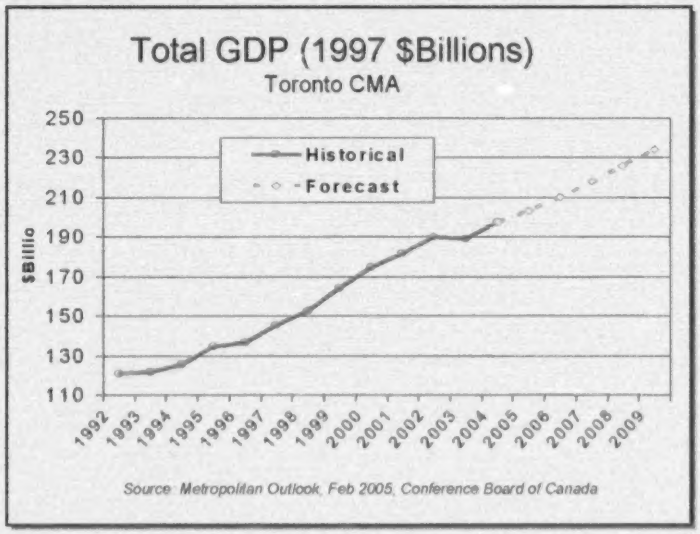
The Conference Board of Canada projected that Ontario's real GDP would grow by 2.6 per cent in 2005 and 2.7 per cent in 2006.

Toronto region has the most diversified economy in North America

Toronto

The economy of the Toronto region (CMA or census metropolitan area) is one of the most diverse economies in North America. It transitioned from a traditional manufacturing economy, to one characterized by highly specialized knowledge-based jobs. At $129 billion annually, the City of Toronto's Gross Domestic Product (GDP) is approximately half of the region's GDP, and is 50 per cent larger than all of the Maritime Provinces combined.

The chart below shows the growth in the GDP of the Toronto Census Metropolitan Area for the period from 1992 to 2008 based on the Conference Board of Canada's Spring 2005 forecast.



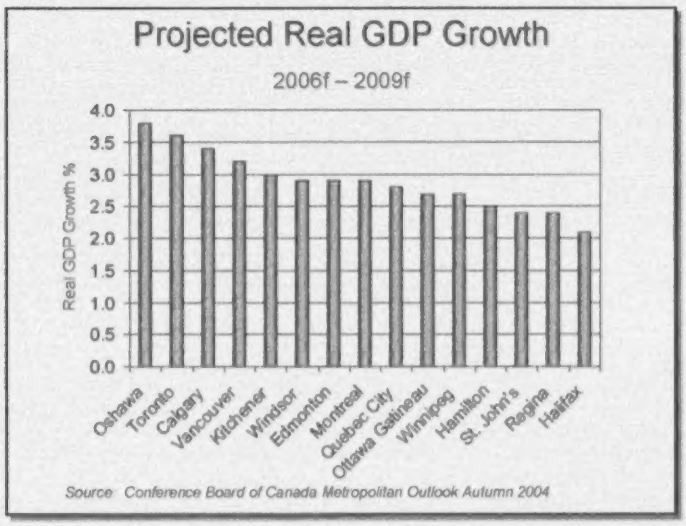
The main drivers in Toronto's economy are manufacturing and financial/business services, both representing approximately 16% of the total annual output. A large share of the output of the manufacturing sector is exported. The top nine industry sectors in the Toronto region are listed in the table below.

Toronto Output (2003)		
Industry Sector	**GDP ($Billion)**	**% of Total GDP**
Manufacturing	19.9	16%
Finance, Insurance & Real Estate	19.1	16%
Commercial Services	16.9	14%
Real Estate	16.7	14%
Non-Commercial Services & Others	15.9	13%
Wholesale & Retail Trade	13.7	11%
Transportation, Storage & Communication	13.3	11%
Construction, Utilities & Others	6.1	5%

In 2003, Toronto's economic growth slowed significantly, due to the outbreak of SARS in the region, the electricity blackout, a weaker than expected economic recovery in the U.S., a build-up of inventories in early 2003 and the rapid appreciation of the Canadian dollar.

In 2004 the Toronto region emerged from 2003's slowdown with significant recovery expanding by 4.6% in GDP growth. This has been led by robust manufacturing activities, together with the strengthening services sector. The construction sector has continued its strong growth and posted another banner year in 2004. Although construction is expected to slow down in 2005, continued growth in manufacturing and the services sector will enable Toronto

to enjoy another year of strong economic growth. The Conference Board of Canada forecasted (in Spring 2005) that the region's Real GDP would grow by 2.7 per cent in 2005, 3.4 per cent in 2006, 3.6 per cent in 2007, 3.7 per cent in 2008, and 3.6 per cent in 2009. The region's economic performance is expected to rank the second highest amongst all Canadian metropolitan areas in the forecast period of 2006 to 2009.

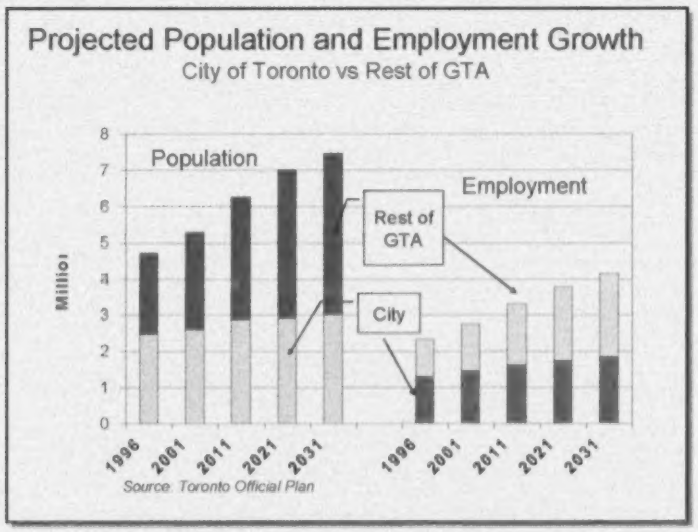


Population and Employment:

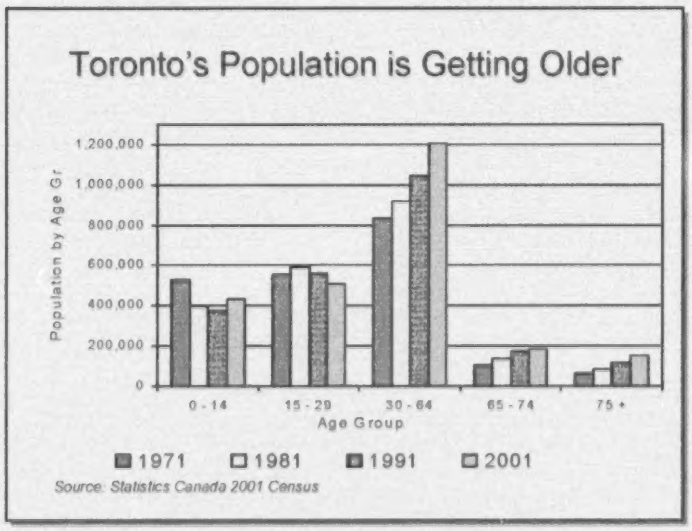
Toronto:

- has a 2001 census population of 2,481,510
- makes up approximately half of the population of the Greater Toronto Area (GTA)
- experienced population growth of 4 per cent since the 1996 census (compared with 16 per cent population growth in the regions surrounding Toronto and 6 per cent population growth in Ontario)
- has forecasted population growth of 12.4 per cent over the next 20 years (compared with 50.9 per cent population growth in the surrounding regions and 32 per cent in the entire GTA)
- has a greyer population than the GTA - 13.4 per cent aged 65 years and above in 1996 and 62.8 per cent of all seniors in the GTA
- is experiencing a noticeable polarization of income both within the City and between the City and the rest of the GTA
- had a median household income in 2000 of $49,345, while the rest of the GTA had substantially higher median household income (Durham Region: $66,832 - York Region $75,719)
- was home to 71 per cent of GTA families who fell below Statistics Canada's "Low Income Cut-Off" in 2001
- continues to derive strength from its diversity – 52 per cent of all people who choose to call Toronto home were born in other countries
- had 1/12th of Canada's population in 1996, but 1/4th of Canada's immigrants and 1/3rd of Canada's recent immigrants

Between the Census years from 1996 to 2001, the City's population increased 4.0 per cent according to the 2001 Census. The City is capturing about one-third of the 90,000 people added to the regional population each year. The City is projected to grow by half a million people to 3 million by 2031. While Toronto's forecasted growth rate is lower than its GTA neighbours, its growth is occurring on a population base that is one-half of the GTA.

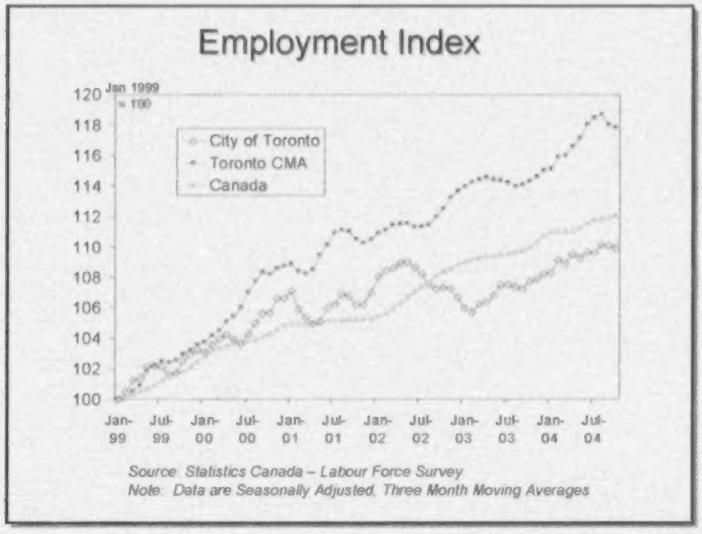


The 2001 Census data shows that the City's population is ageing. Currently there are an estimated 338,000 seniors, about 14 per cent of the City's population. By 2031, it has been projected that this age group will grow to 479,000 or 16 per cent of the total population. The 75+ age group is expected to increase by almost 45 per cent between 2001 & 2031.

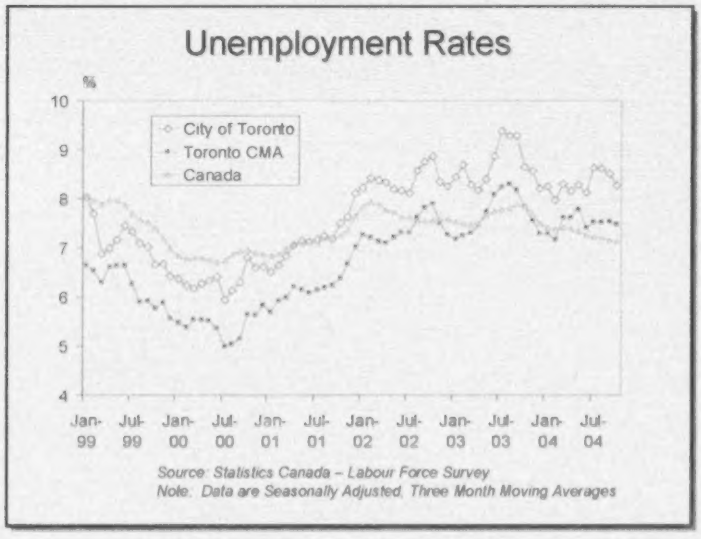


Toronto experienced exceptional employment growth in the 1980s, growing at an annual rate of 3.5 per cent between 1983 and 1989, to reach a peak of 1,356,900 jobs in 1989. During the following six years (1990 – 1996) the City saw a dramatic employment decline, decreasing at an annual rate of 2.6 per cent to reach a low of 1,153,800 jobs in 1996. Employment recovery began in 1997. Between 1998 and 1999 the City saw the single largest annual increase in job growth in 20 years (5.1 per cent). Since 1996, at the beginning of Toronto's recovery from the recession, Toronto has added 967,500 jobs. The 2003 employment level was 1,251,300 in the City, still below the peak recorded in 1989, but well above the trough recorded in 1996.

Close to half of all Toronto workers are employed in office-related activities. In 2003, the total number of businesses within the City of Toronto was 71,800.

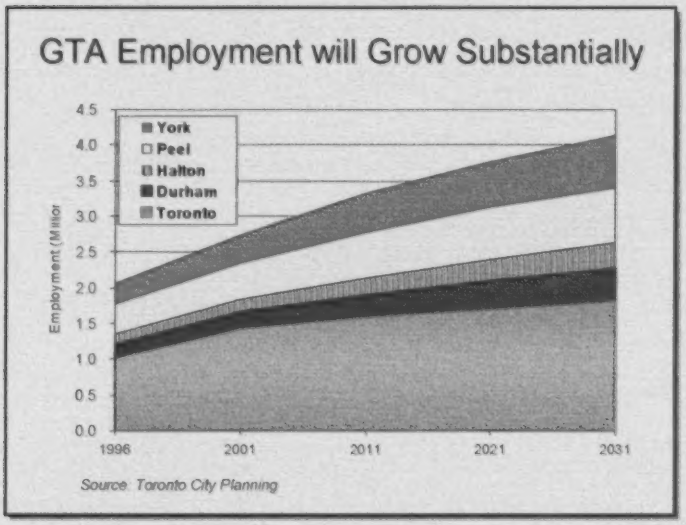


Source: Statistics Canada – Labour Force Survey
Note: Data are Seasonally Adjusted, Three Month Moving Averages



Source: Statistics Canada – Labour Force Survey
Note: Data are Seasonally Adjusted, Three Month Moving Averages

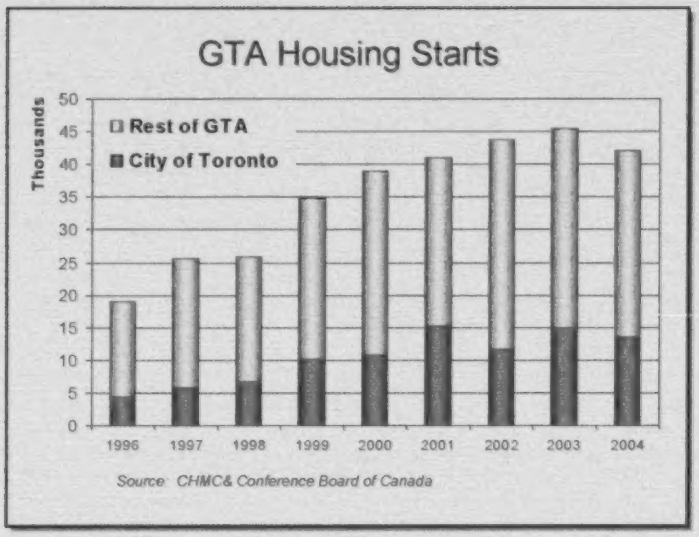
Not withstanding short-term fluctuations, employment in the GTA is forecasted to grow substantially in the long term. It has been projected that 70 per cent of the growth will occur in the 905 area, and hence Toronto's share of GTA employment will decline from 55 per cent in 1995 to 44 per cent in 2031.



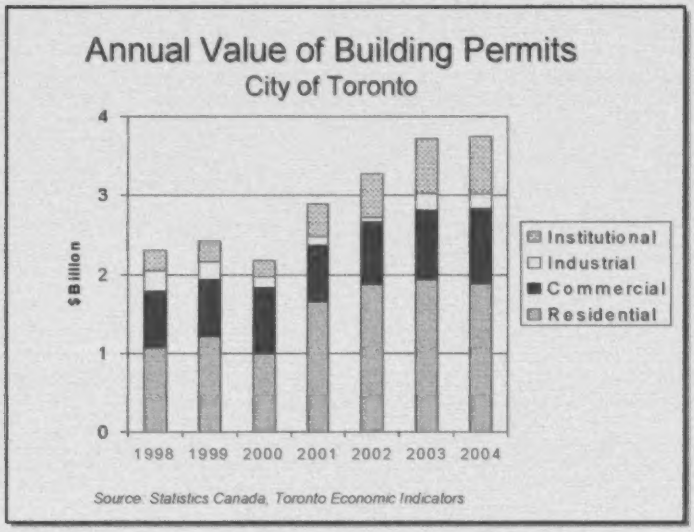
Real Estate Indicators:

Low interest rates, a tight rental market, strong employment gains, and robust population growth have fuelled the real estate market. Housing starts in the City have increased from less than 5,000 per year in 1996 to over 13,560 in 2004. The City is also capturing an increasing share of regional growth — the City had 23 per cent of the Toronto regional housing starts in 1996, but has increased its share to 32 per cent by 2004.

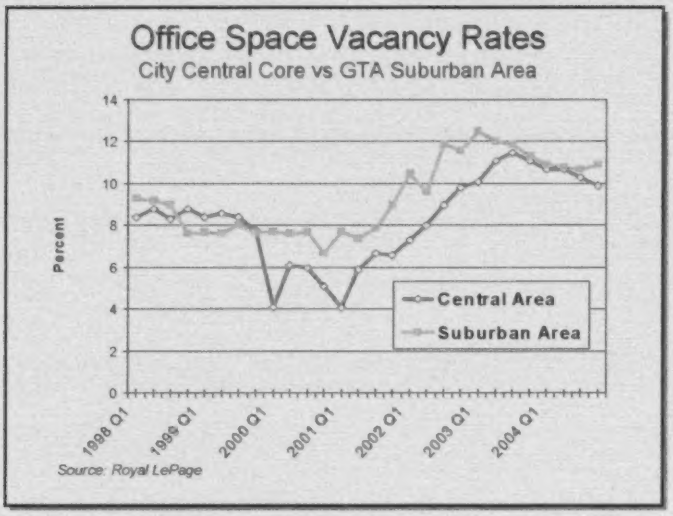
The Toronto CMA housing starts reached an all-time high in 2003, softening slightly in 2004. The Conference Board projected that the level of activity would continue to soften in 2005.



The City of Toronto issued $3.75 billion of building permits in 2004. Residential construction in the City has been strong, as exemplified by the value of building permits. But non-residential construction activity is weakening.



The office rental market has weakened since 2001. Lower business confidence, volatile stock markets, and weaker corporate earnings resulted in less demand for office space and increasing office vacancy rates. There have been slight improvements since 2003, but the improvement has concentrated in the GTA suburbs. The economy's strong performance over the year has not been able to translate into a sustained recovery for Downtown office market.



Residential Rental Market:

Toronto has the largest number of GTA residential rental units, accounting for 73 per cent of the GTA's rental unit stock in 2001. During the latter part of the 1990's, construction of residential rental units almost came to a stop. It was only in the last two years that construction has started to pick up but is still below the mid-1990 level.

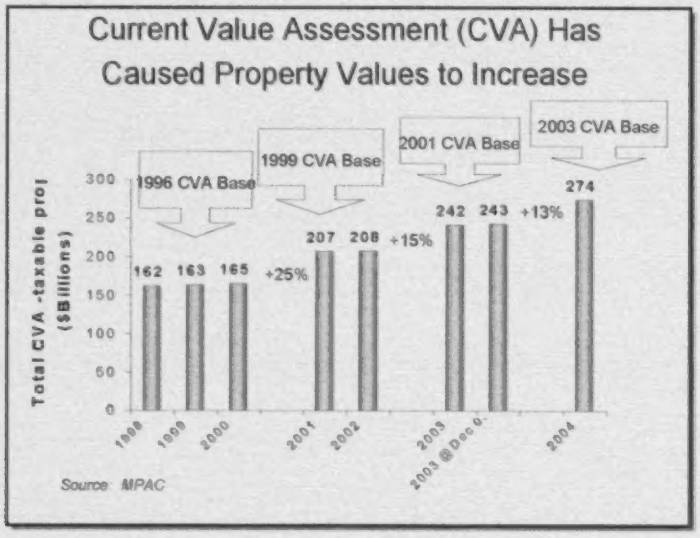
The balance between owners and renters shifted significantly in the latter half of the 1990's. In Toronto, where renters have outnumbered owners for many years, owners outnumbered renters in 2001 (50.7 per cent owners vs. 49.3 per cent renters). The surge in the construction of condominium buildings, the low interest rate environment and increase in employment has enabled some renters to become first-time condo buyers. In addition, there is a drop in immigrants from overseas as well as other provinces to the City. This has caused the residential rental market to ease off and the rental apartment vacancy rate to increase, at least for the high-end market. A significant jump in rental vacancy rates occurred throughout the GTA between 2001 & 2003.

Average rents in the City's remained high in 2003 – $734 per month for a bachelor suite, $884 per month for a one-bedroom unit, $1,045 per month for a two-bedroom unit, and $1,225 per month for a three-bedroom unit. Despite the increase in the overall apartment vacancy rate, affordable apartments ($800/month or less) are still in scarce supply. Rent increases have exceeded the rate of inflation. Between 1998 and 2003, while the rate of inflation increased by 13.2 per cent, the average rent increased by 15 per cent (two-bedroom unit) to 25 per cent (bachelor).

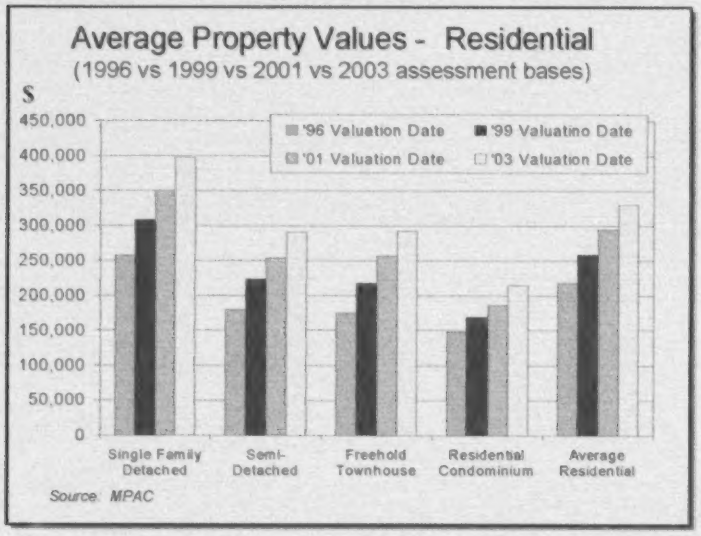
Over one-fifth of the City's tenants have a serious affordability problem – in 2000, 21 per cent of all tenants in the City paid more than 50 per cent of their income on housing, while 43 per cent paid more than 30 per cent of their income on housing, which is outside of the threshold of affordability.

Property Re-assessment has resulted in appreciation in values of all property classes

Across the City, the Current Value Assessment (CVA) system, introduced in 1998, has caused all residential property classes to appreciate in value. The following chart compares the total property assessment in Toronto under the Current Value Assessment system. Re-assessment has resulted in taxable property values increasing by 25 per cent in the 2001 reassessment, 15 per cent in the 2003 reassessment and a further 13 per cent in the 2004 reassessment.

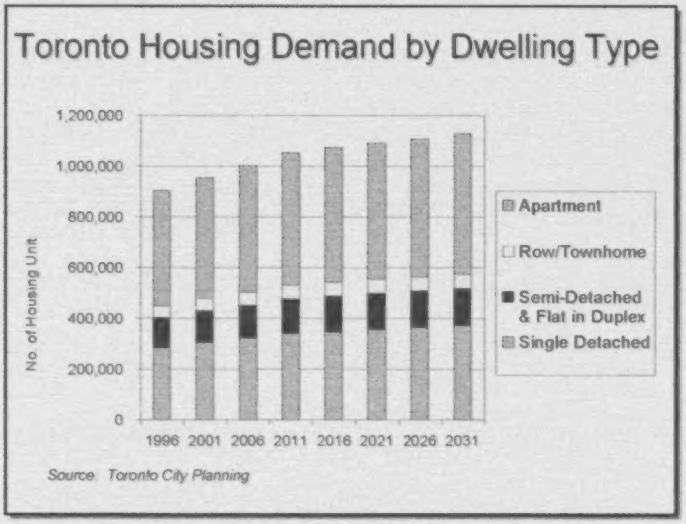


While the average assessment (CVA) of a residential household in the City in 1998 (1996 CVA) was about $218,000, this figure has increased by more than 50 per cent to $330,000 (2003 CVA). Nevertheless, assessment growth due to new construction and building improvements has been in the order of 0.5 per cent to 1 per cent per year over the last seven years.



Demand for Housing is increasing:

Toronto is projected to add 224,609 households by 2031, a 25 per cent increase over 1996. Based on historical data, more than half (55 per cent) of the new households will be seeking ground-related housing. An interesting note is that the number of households is projected to grow slightly faster than population, which means that the number of persons per household will continue to decline.

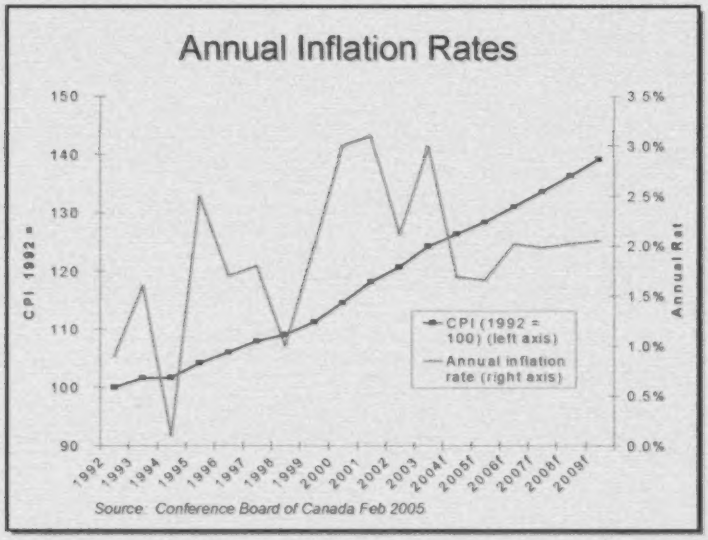


Lengthening Waiting Lists for Social Housing:

In 1993 the Federal Government withdrew its funding for Social Housing. The combination of a near-freeze on construction of new social housing and substantial reductions in overall renter starts translated into increased volumes of renters with affordability problems and growing wait lists for existing social housing. In the City of Toronto, the wait times increased from a range of five to seven years in 1998 to seven to ten years by 2002. Wait-listed households accounted for over 10 per cent of renter households in Toronto.

Rate of Inflation has stayed relatively low

Due to the state of the economy and tight fiscal and monetary policies in both Canada and the US, the rate of inflation (as measured by the Consumer Price Index or CPI) has stayed relatively low in the last few years. It is projected that CPI will continue to stay at around 2.0 per cent over the next five years.



Toronto Tops in Economic Strength

LaSalle Investment Management, a Chicago-based company, published its inaugural North American Regional Economic Growth Index (NA-REGI) in December 2002. Toronto (region) ranked first in 36 North American cities. The REGI is a multi-factor model that uses a variety of economic and risk variables to forecast future real estate demand. For comparison purposes, the REGI index value for North American average equals 1.0. Toronto's value (1.23) indicates that the forecast demand for commercial real estate is likely to be 23 per cent higher than the average for North America. Contributing to Toronto's first-place finish were:

- the relatively strong outlook for the Canadian economy compared to the U.S.,
- Canada's continuing advantage as a low cost location for doing business, and
- attractive tax rates in the Toronto region compared to other major cities.

Business and Other Investments in the City

The City continues to see large-scale investments from various sectors including office buildings, cultural establishments, industries, academic and research facilities and others. The following table provides a sample of current investments.

Project Name	Location/Details	Estimated Investment ($Million)
Office		
Transamerica Tower	5000 Yonge St.	$120
Festival Towers	King and John	$120
Canada Life/Great West Life Office Building	Queen and University	$75
SAS Institute (Canada) Head Office	280 King St. East	$30
Children's Aid Society of Toronto	32 Isabella Street	N/A
Canadian National Institute for the Blind	1926 Bayview Avenue	$21
Cultural		
Art Gallery of Ontario	Dundas and McCaul	$200
Royal Ontario Museum	University and Bloor	$200
Four Season Centre of the Arts (New Toronto Opera House)	University and Queen	$150
National Ballet School of Canada	Jarvis and Carlton	$100
Royal Conservatory of Music	Bloor and Bedford	$60
Olympic Spirit Centre	259 Victoria St.	$34
Gardiner Museum of Ceramic Art	111 Queens Park Cres	$15
Industrial		
Apotex/TorPharm Pharmaceutical	50 Steinway Blvd.	$120
VIVA Magnetics Canada	5373 Finch Ave. E.	$22
Portlands Film Studio (TEDCO)	Port Area	$50 – 120
Great Lakes Studios - Special Effects Sound Stage	Port Area	$80 – 100
Cinram Ltd.	400 Nuggett Ave.	$20 – 30
Metro Label Co.	999 Progress Ave.	$7 – 10
Atlantic Packaging	333 Progress Ave.	$6.5
Giffels (spec industrial)	420 Nugget Ave.	$7

Project Name	Location/Details	Estimated Investment ($Million)
Academic/ Research		
MARS Project (Medical and Research Sciences Discovery District)	MARS Project (Medical and Research Sciences Discovery District)	$350
University Health Network	University Health Network	$484
St. Michael's Hospital – Research Building	St. Michael's Hospital – Research Building	$90
Centre of Cellular and Biomolecular Research	Centre of Cellular and Biomolecular Research	$120
Faculty of Pharmacy	Faculty of Pharmacy	$80
Technology Enhances Learning Building	Technology Enhances Learning Building	$88
Ryerson University – 3 new buildings and 2 major renovation projects	Ryerson University – 3 new buildings and 2 major renovation projects	$200
Ontario College of Art & Design	Ontario College of Art & Design	$43
Scarborough College	University of Toronto	$70
Others		
Pearson Airport Expansion	Greater Toronto Region	$4.4 Billion
Front Street Extension	Front Street	$250
Deep Water Cooling System (Enwave Project)	Downtown Toronto	$135
Port Lands Improvements	Port lands	$61
Union Station Expansion	Front Street	$58
Eaton Centre Renovation	Yonge and Dundas	$40
Pantages Hotel	Yonge and Shuter	N/A

The City's economy lags behind that of the region

The Toronto region, including the City of Toronto, outperformed the Canadian economy for the last eight years prior to 2003, and despite a small setback in 2003, the regional economy bounced back in 2004 to place fifth amongst major Canadian municipalities. Nevertheless, the City has been lagging behind the rest of the Toronto region, particularly in the last three years when employment in the City has declined.

2B. Current Status of City's Financial Condition

This section summarizes the City of Toronto's current situation, from the perspective of its Strengths, Weaknesses, Opportunities and Threats.

❑ **Strengths**:

Toronto has strengths which distinguish it from other municipal governments:

- The fifth largest government in Canada, after the provinces of Ontario, Quebec, British Columbia, and Alberta
- Strong and diverse economy
- Recognized financial and business centre of Canada; well positioned in the North American economy
- Diverse population and skilled workforce which help position City favourably in the world economy
- Excellent worldwide reputation
- Significant and relatively well maintained assets
- Extensive and high quality infrastructure, including, for example, Toronto Transit Commission, transportation and fibre optics network
- Experienced and dedicated employees and an organization geared to effectively managing a talented and innovative workforce
- City Council that is dedicated to making it work
- Relatively high credit rating associated with low debt, significant level of applied capital financing (e.g. capital contributions and Hydro proceeds)

❑ **Weaknesses**:

On the other hand, Toronto does have weaknesses:

(i) Non-Financial

- Ageing infrastructure
- Infrastructure bottlenecks, particularly transit and transportation
- Broad range of demographics, including high service demand groups (higher proportion of lower income and older population than other municipalities)
- Additional responsibilities that come with being Canada's largest City, e.g. policing of national demonstrations, attraction of homeless
- High and increasing demand for wide variety of quality services
- Continued pressures to further harmonize service levels

(ii) Financial

- Low assessment growth
- Non-competitive commercial/industrial tax rates, including that portion controlled by the Province with respect to Business Education Taxes
- Residential tax rates such that for a typical household property taxes consume higher proportion of income than in other municipalities
- Limited ability to tap non-tax revenue sources
- Limited autonomy in decision making due to legislative restrictions and "one size fits all" approach

- High and growing cost of maintaining infrastructure
- Continued cost pressures for service harmonization, including salaries and benefits of municipal employees
- Low levels of municipal reserves

❑ **Opportunities**

The City of Toronto has come a long way in improving its financial sustainability, and it sees opportunities in gaining momentum:

- Improved quantification of City's long-term infrastructure needs
- Financial reforms for municipalities from other orders of government is gaining strength
- Provincial legislation being reviewed which may broaden powers, including revenue raising abilities
- Efforts are being co-ordinated, e.g. Hub City Mayors

❑ **Threats**

Despite the above opportunities, there are still potential threats, some beyond the City's control, which may impact the outcome of the City's efforts. These threats come from:

- Possible downward spiral in central businesses should infrastructure deteriorate and/or taxes increase prohibitively
- Degradation of the international reputation as the "City that Works" and its ranking as the city with the best quality of life
- Evolution of a reputation as a city in decline
- Continued loss of industrial base to the 905 region and to south of the border (hole in the donut)
- Cost pressures from economic downturn, e.g. on social assistance, without recognition by the provincial government of the inappropriateness of the property tax as a funding source
- Upward pressure of interest rates that may lead to increasing debt service charge and social housing responsibilities
- Possible restrictions on new revenues from other orders of government that do not recognize the significance and costs of maintaining the City's existing assets

2C. Historical Context of City's Finances

Toronto, Ontario and Canada are Important to Each Other

Toronto's budget is larger than all but four of the provinces including Ontario, Quebec, British Columbia and Alberta.

Toronto has:

- 22 per cent of Ontario's population but generates 26 per cent of the province's GDP
- 8 per cent of Canada's population but generates 10 per cent of its GDP
- 62 per cent of the province's total transit riders
- net annual outflow of $11 billion from City residents to the Province of Ontario and the Federal Government by way of taxes and contributions

In a typical Toronto household, of the total taxes paid every year, 59 per cent goes to the Federal Government, 35 per cent goes to the Provincial Government and only 6 per cent goes to the City.

City of Toronto has a Structural Financial Problem

The City has a unique set of services demands which result from:

- the demographics of its population, especially as a major immigrant reception centre
- its position as the financial capital of the country – banking/finance, head office and industrial centre
- its importance as the Provincial capital and centre stage for political activities
- its position as the cultural capital of English Canada, major education centre and as a major tourist destination.

The City has a structural financial problem. The City cannot fund its current program responsibilities without a significant change in funding responsibilities. Toronto's high cost structure in the major service categories are characteristic of big cities, but Toronto's property tax revenue base is comparable or in some cases weaker than adjacent GTA jurisdictions that have lower service costs. An expanding reliance on debt for capital expenditures will be a drain on the operating budget for years to come.

Some of the symptoms or outcomes of the structural financial problem are manifested in the City having:

- one of the highest transit municipal cost per capita in Canada
- the highest policing costs per capita in Canada
- the largest share of GTA low income families (71 per cent)
- an assessment base inadequate to mitigate these costs
- worsening fiscal situation (debt service burden growing)

City has Unique Demographics and Demands

In the following sections, the causes of the problems and/or the events leading to these problems in relation to the City's financial condition are discussed in full.

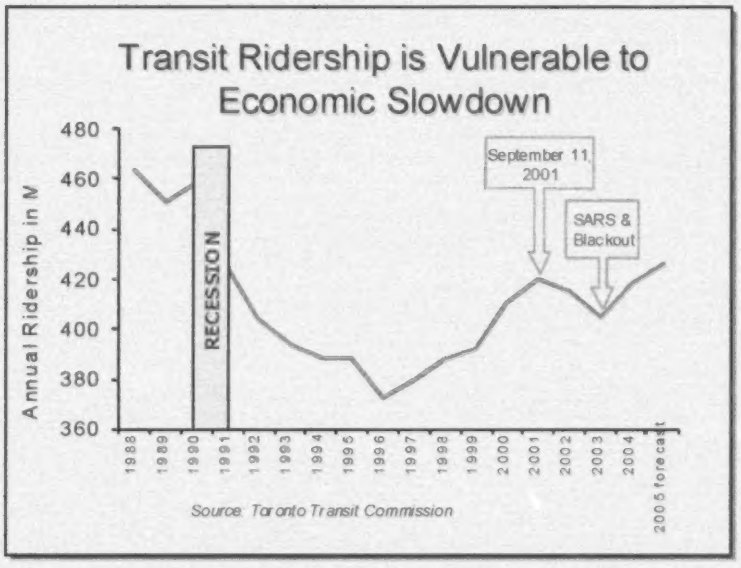
Like most core cities, the demographic profile of Toronto's population contrasts with that of the larger surrounding region — GTA. The City has a disproportionate share of the country's and the province's poor, elderly and poor elderly. As well, the City receives a disproportionate share of new immigrants and inter-provincial migrants. In the 2001 Census Toronto had just under half of GTA's population but:

- 71 per cent of GTA low income families
- 66 per cent of GTA poor children
- 69 per cent of GTA seniors living alone
- 62 per cent of GTA lone-parent families
- 29 per cent of all new immigrants to Canada and 67 per cent of all recently arrived immigrants to GTA
- two-thirds of all refugees to Canada
- 75 per cent of GTA households receiving social assistance
- 78 per cent of GTA youth living on their own
- 75 per cent of GTA tenant households
- 60 per cent of all GTA residents identified as belonging to a visible minority
- more than 80 per cent of GTA homeless people
- 25 per cent of Toronto's children live in poverty

The servicing of these resources places unique and unusual demands on the City's financial resources.

City's revenues and expenses are vulnerable to economic downturns

Changes in the economy have an impact on the City and these impacts are quite different from other orders of government. In particular, a downturn in the economy reduces user fee income such as T.T.C. ridership, building permit fees, recreation fees and increases other expenses such as social assistance payments and demands for social and recreation services. This is illustrated in the following figure where the impacts of the recession in the early 1990s are clearly manifested. With an upturn in the economy, since revenues are not related to income or consumption, there is no change in revenue unless assessment grows or fee income increases such as additional fares from increased T.T.C. ridership.



Toronto has substantial infrastructure worth more than $57 billion

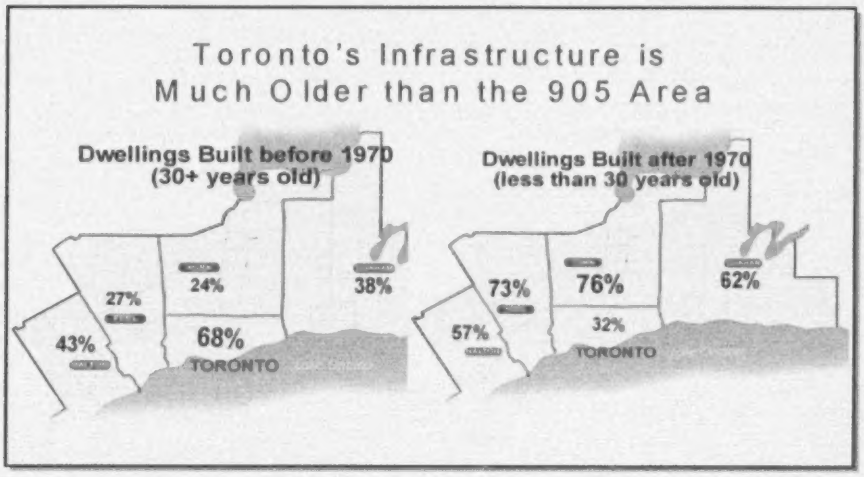
Toronto has an estimated physical asset value of more than $57 billion.

Type of Infrastructure	Composition	Estimated Asset Value
Transportation Infrastructure	– 5,300 km of roadways – 300 km lane km of expressways – 7,100 km of sidewalks – 530 bridges & structures, 600 pedestrian crossovers – 160,000 streetlights, 1900 signal-controlled intersections – 4,100 transit shelters	$9.5 Billion
Water & Wastewater Infrastructure	– 4 water filtration & 4 wastewater treatment plants – 10 reservoirs, 4 water storage tanks & 5 wastewater detention tanks – 100 pumping stations – 5,525 km of watermains & 10,500 km for wastewater distribution system – 4 water filtration & 4 wastewater treatment plants	$26.6 Billion
Public Transit System	– 1,610 buses & 248 streetcars – 700 subway & light rail cars – subway, buildings, track work, equipment, etc.	$8.9 Billion
Buildings, Facilities & Fleet	– 1,465 structures including civic centres, recreation facilities, fire halls, libraries, ambulance buildings, etc. – more than 2,000 vehicles, ferries and vessels	$6.0 Billion
Housing Infrastructure	– 60,500 public housing units (full responsibility) – 33,700 non-profit & commercial units (funding responsibility)	$6.0 Billion
Parkland & Other Land	8000 hectares of parkland (= 18 per cent of the land area of the City of Toronto)	To be determined
Total Estimated Asset Value		**More than $57 Billion**

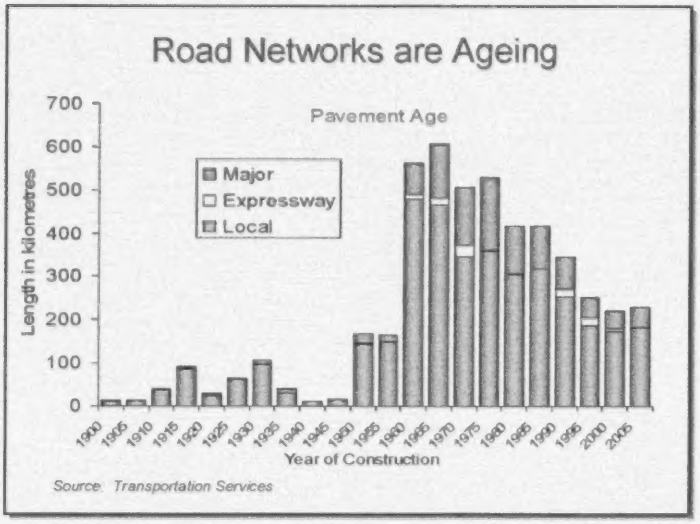
Toronto's physical infrastructure is much older than that of the surrounding municipalities

Another aspect of a City's financial condition is its ability to maintain its services and infrastructure while at the same time maintaining other aspects of a healthy 'balance sheet' (physical and financial assets) such as adequate reserves and low levels of accounts payable. Sustainability assumes that infrastructure is maintained at an appropriate state of good repair and services are provided as required without increasing debt, deferring repair or replacement, or degrading services.

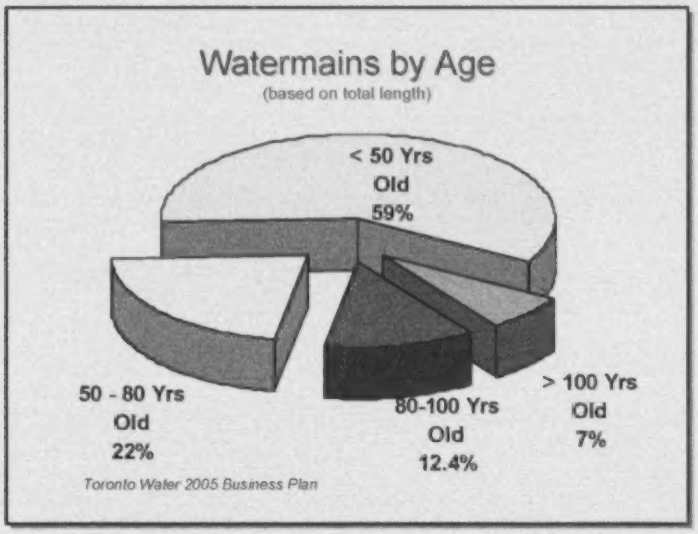
The City is older than most other municipalities in the Province and especially the GTA and as such has much older infrastructure, as shown in the following figure.

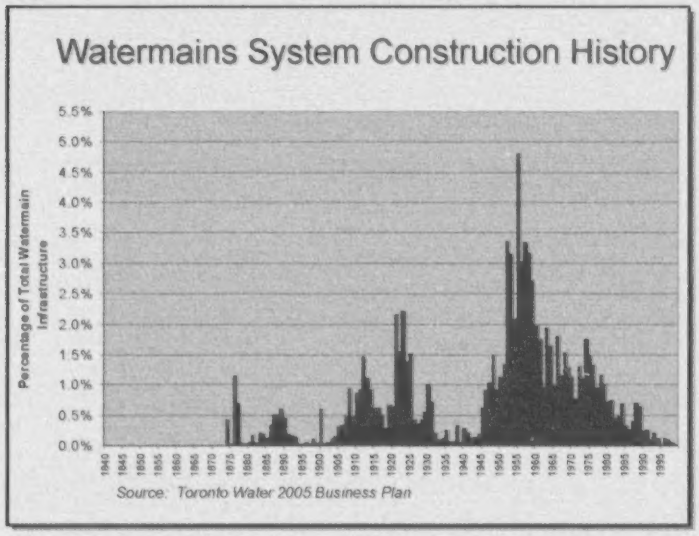


The City's road network, the majority of which was constructed in the 1950's and 1960's, is in need of repair.



The City's water and wastewater infrastructure is also very old. The age of the infrastructure resembles that of the road network system. Statistically, 50 per cent of the water pipes and 30 per cent of wastewater pipes are more than 50 years old, while 7 per cent of watermains and 3 per cent of the wastewater infrastructure are more than 100 years old. The following two figures show the City's watermains system by age, and the watermains system construction history. The wastewater system follows a similar pattern.

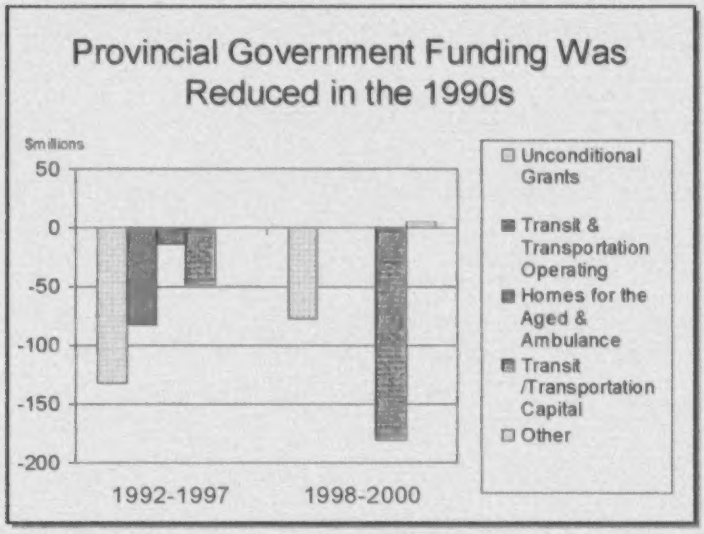




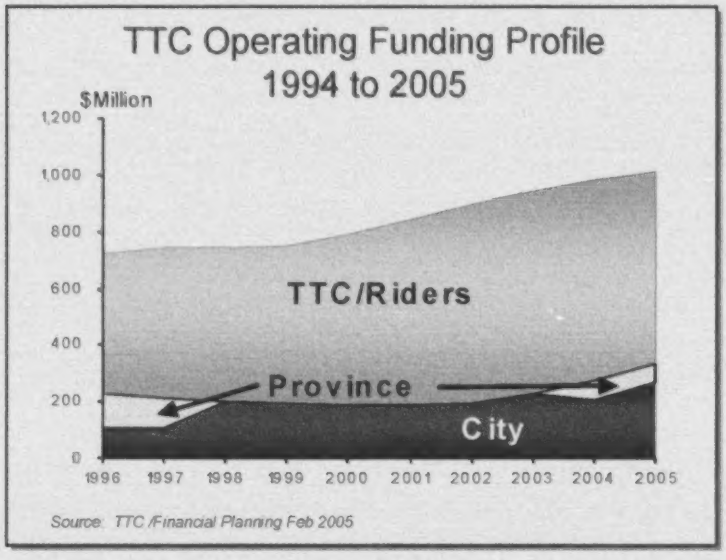
The other orders of governments withdrew financial support for transportation, transit, and affordable housing

As municipal finances became tighter in the 1990's, especially with the other orders of government's gradual withdrawal of funding to municipalities in the three priority areas: transportation, transit and affordable housing, the City could not keep up with the ageing of its infrastructure and has not kept it in a state of good repair.

Added to this is the fact that the City has some infrastructure which is unique such as the subway lines, the Gardiner elevated expressway and the Don Valley Expressway. Up till 1995 the City received transportation operating and capital subsidies at rates of 33 per cent to 80 per cent. Since then such subsidies have been eliminated. Provincial funding to affordable housing was eliminated completely.

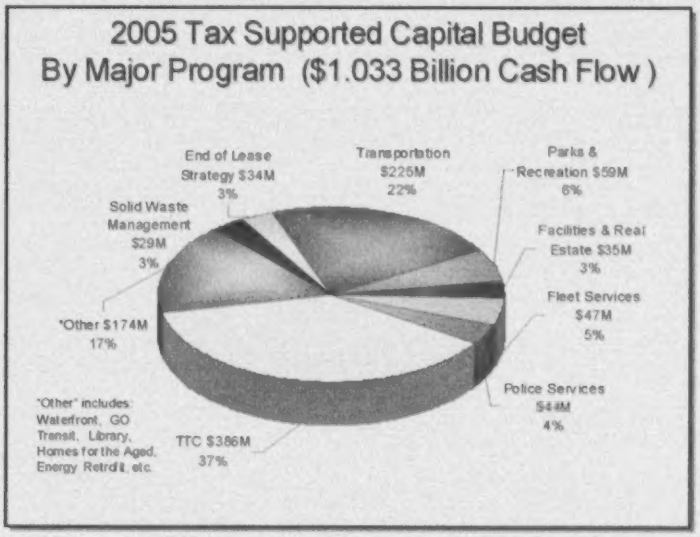


From 1972 to 1996, transit capital funding responsibility was 75 per cent by the Province and 25 per cent by the City. In 1996, the Province began to withdraw from funding transit capital by reducing its share to 50 per cent and then to 0 per cent in 2001. It was only in late 2001 that the Province began to re-involve itself to funding transit capital. Under a variety of funding programs, including an allocation of Provincial gas tax and a tripartite five-year agreement with the Federal and Provincial governments, the City would receive operating and capital funding for the TTC. The graph below shows the changes in the Provincial subsidy for operating funding up to 2005.

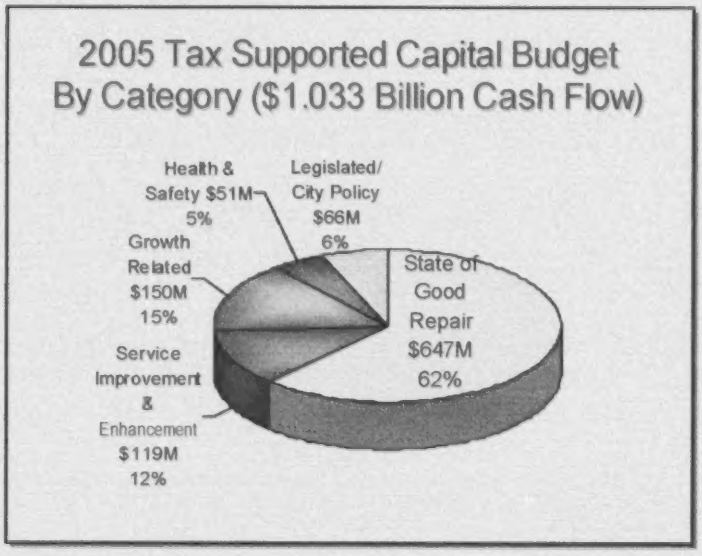


City's 2005 Capital Budget is $1.033 Billion

The City's 2005 tax-supported capital budget is $1.033 billion. The following chart shows that out of the total capital budget, capital requirement of the TTC is the largest, followed by Transportation and Parks and Recreation.


2005 Tax Supported Capital Budget
By Major Program ($1.033 Billion Cash Flow)
End of Lease Strategy $34M 3%
Transportation $225M 22%
Parks & Recreation $59M 6%
Solid Waste Management $29M 3%
Facilities & Real Estate $35M 3%
Fleet Services $47M 5%
*Other $174M 17%
Police Services $44M 4%
TTC $386M 37%
*Other" includes: Waterfront, GO Transit, Library, Homes for the Aged, Energy Retrofit, etc.

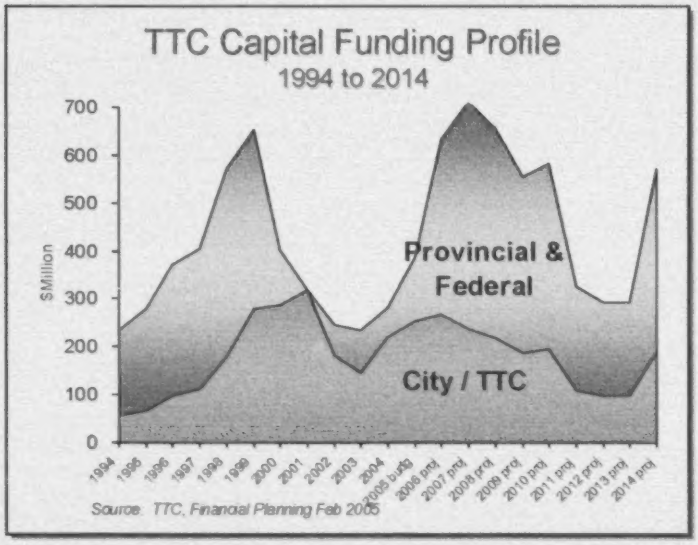
This chart looks at the same tax-supported capital budget sliced differently — now it is broken down by category. The biggest capital budget item is for the State of Good Repair, which makes up 62 per cent of the capital budget. Only 15 per cent is related to growth. Service improvement takes up 12 per cent, followed by legislated items (6 per cent) and health & safety items (5 per cent). It shows that almost two-thirds of the capital budget is for maintenance of existing infrastructure, and even with this allocation, the capital budget has been significantly constrained.

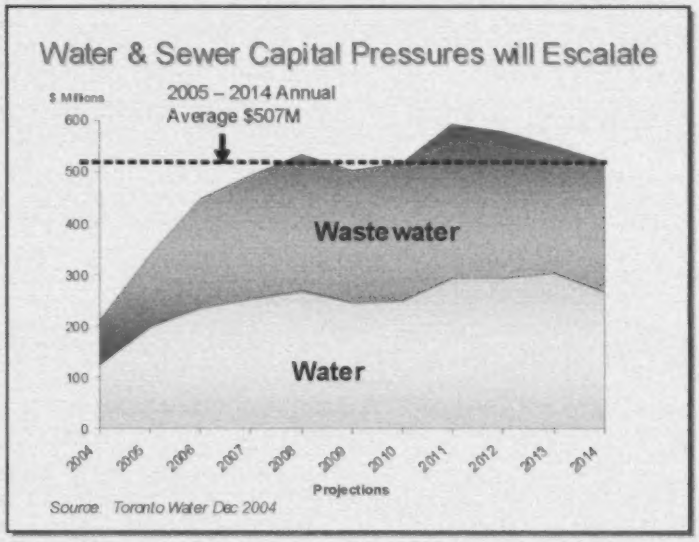

2005 Tax Supported Capital Budget
By Category ($1.033 Billion Cash Flow)
Health & Safety $51M 5%
Legislated/ City Policy $66M 6%
Growth Related $150M 15%
State of Good Repair $647M 62%
Service Improvement & Enhancement $119M 12%

Tax- and rate-supported capital are forecasted to escalate

Adding to the fiscal constraints in the 1990s resulting in significant backlog in the State of Good Repair for infrastructure, the City will be faced with growth in demand due to an increase in population and business activities. Under the projections contained in the Official Plan, the City is projected to grow by over half a million people from the current 2.5 million to 3 million by 2031, equivalent to adding the current population of the City of Hamilton or the Durham region to Toronto. The demand for new infrastructure investments and the increased wear and tear on the existing infrastructure add additional cost pressure to the City as it endeavours to maintain the quality of its infrastructure.

The following figures depict the projected capital spending of the Toronto Transit Commission (TTC) and Water and Wastewater services in the next ten years. In all cases, capital requirements are expected to increase towards the second half of the decade.



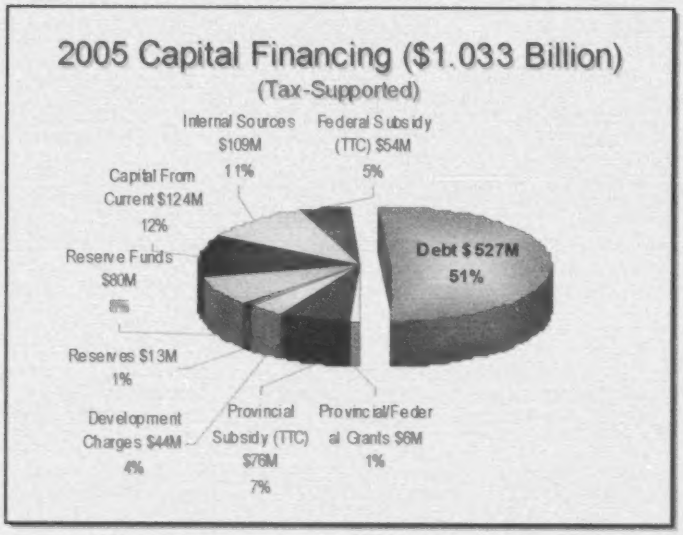


Capital expenditures are financed mainly from four sources including debt

The City's capital works program is primarily funded from:

1. dedicated capital reserves funded from funds set aside in previous years;
2. subsidies from other orders of government
3. direct annual contributions from the operating budget – Capital from Current contributions or "pay as you go"; and
4. debt, issued on the public bond markets as City of Toronto debentures, interest is paid annually with a lump sum of the principal paid when the debt matures.

The 2005 sources of capital financing are illustrated in the following chart.

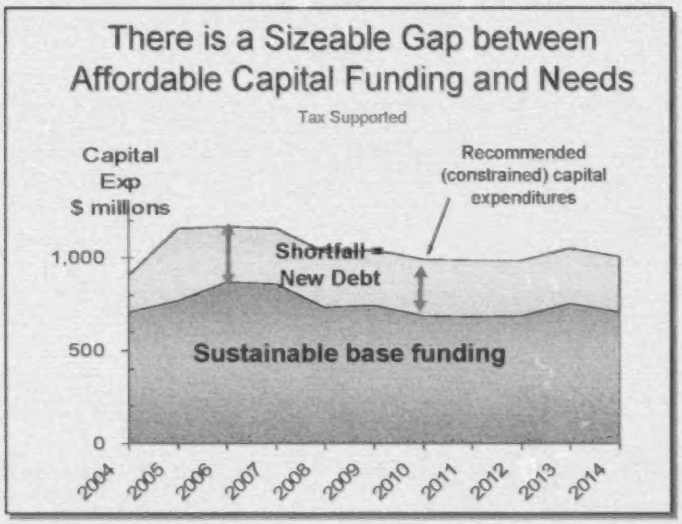


Even after aggressive capital expenditure constraints, the City still finds itself faced with a funding shortfall in the order of hundreds of million dollars annually over the next five years just to maintain the State of Good Repair, that is, the cost of maintaining existing assets. The capital program in a mature urban area like Toronto is mainly oriented to major maintenance and rehabilitation or "State of Good Repair". As such, the ideal funding of the program would be that all such expenditures would be funded directly by Capital from Current contributions. However, this would entail a major increase to the operating budget.

The sizeable gap between capital needs and affordable capital funding is mainly bridged by issuing debt

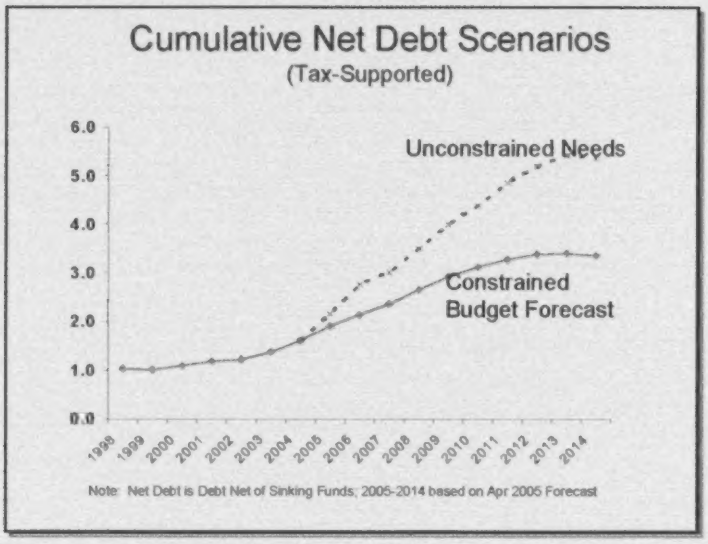
In the current financial situation, it is not possible to increase this component of the operating budget from its current level to the required level in a short period of time. Instead, the City must use short-term debt with a term of up to 10 years to fund its maintenance programs and only issues longer-term debt for items having a substantially longer useful life, such as the Sheppard Subway.

Unlike other orders of government which finance both capital expenditures and operating deficits by debt, the City can only borrow for items of a capital nature such as buildings, subway cars, roads and major computer system implementations. Borrowing for operating budget shortfalls is not permitted by Provincial statute. Provincial law also prohibits the municipality from borrowing for items having a useful life less than the term of the debentures, usually 10 years. While debt is often considered to be a financing source of last resort to be avoided, it is an appropriate way of financing longer life items since future taxpayers that receive the benefit of the items pay through future debt charges.



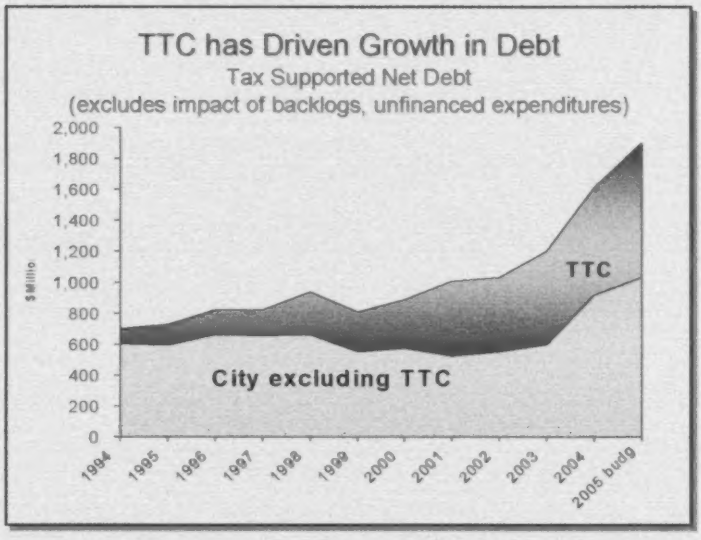
The City's "base" level of borrowing represents that level which would simply replace existing debt when it matures. Based on the historical level of borrowing, an average of approximately $135 million can be borrowed each year without adding to the debt or debt charges over time. Any borrowing above that level results in higher debt services costs over time.

The City's total tax-supported net debt is forecasted at $1.6 billion at the end of 2004. This amount is expected to increase by over 80 per cent to over $2.9 billion by 2009, even with accounting for federal and provincial funding for transit (TTC), unless capital expenditures are reduced, Capital from Current contributions are increased and/or alternative sustainable revenues are secured. It must be emphasized that the program needs were already drastically cut to minimize debt.



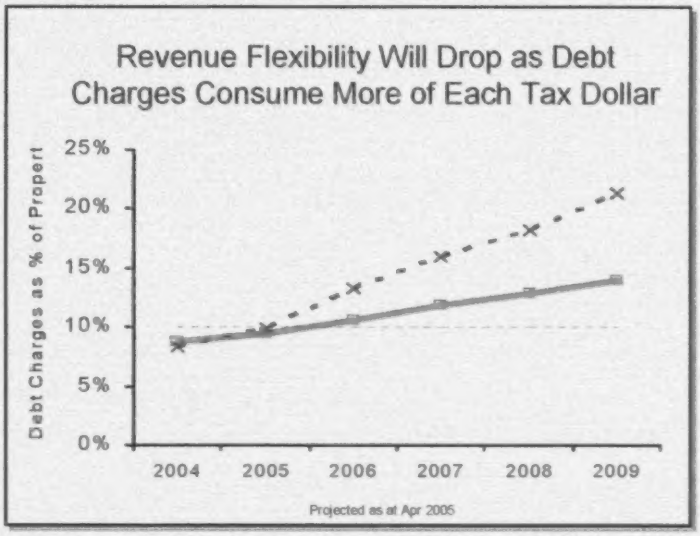
TTC has driven the growth in debt

The City's debt has been driven by capital requirements for the City's transit system (TTC), as shown in the following diagram, commensurate with the withdrawal of 75 per cent Provincial funding starting in 1996.



Revenue flexibility will drop as debt charges consumes more of each tax dollar

As debt increases, so does the debt service cost. The City's current guideline places a limit on debt charges at 10 per cent of property taxes, the logic being that this level leaves 90 per cent of each property tax dollar raised to be used for delivering programs and services. The result is that the City has an appropriate degree of flexibility in its operating budget which helps to avoid problems that the provincial and federal governments have experienced, whereby 13 per cent and 20 per cent respectively of their expenditures were fully devoted to servicing the debt. However, at the rate of increase of the City's debt over the next five years and without additional tax revenues, the City's 10 per cent guideline would likely be exceeded by 2006.



The Province sets a statutory limit for municipal debt

In Ontario, the provincial government sets through regulation the Annual Repayment Limit at the end of each year, which is the maximum amount a municipality may increase its expenditure on debt and financial obligations in the following year. It is set as 25 per cent of a municipality's "net revenue fund revenue". Other provinces set limits with a similar purpose.

One may argue that Toronto's debt is well below the Provincial debt limit and there is no problem. The provincial debt limit is an arbitrary statutory limit to prevent municipalities from spending excessively on capital. It is an absolute maximum that indicates when a municipality is approaching bankruptcy. Well before the City could borrow enough money to raise the debt level to that limit, credit ratings would have been downgraded dramatically and it is very doubtful that bondholders would be willing to lend the City any more money. The costs of servicing the debt would soar and would have to be paid for through massive tax increases or complete elimination of a whole range of critical services.

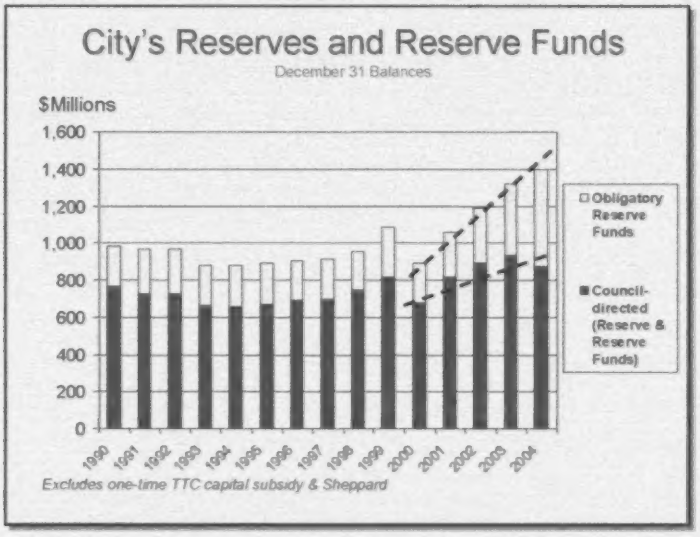
More important to the City is the trend in debt levels. While the other orders of government are capping or reducing their debt, the City's gross debt is projected to escalate over the next few years, mainly to pay for the share of transit requirements. As a result, more and more of each tax dollar raised will go to servicing the debt and less will be available for providing the day-to-day services such as policing, fire, day-care and garbage collection and disposal.

Reserves and Reserve Funds are an integral part of sound financial planning

Reserves and reserve funds form an integral part of sound financial management and planning. Revenues from one period can be set aside to accumulate and finance planned expenditures in the future, and allow for funding of irregular/occasional expenses, such as municipal elections every three years, major equipment purchases and large purchases for buildings. Since the City cannot legally budget for a deficit, it must put aside funds in reserves and reserve funds in case there is an operating shortfall.

Historical Trend of Reserve Balance

The following chart shows the history of the year-end balance for the City's reserves and reserve funds for the period 1990 to 2004, excluding one-time Proviincial subsidy for TTC capital. The balances prior to 1998 were consolidated for the former Metro and lower-tier municipalities. While the total reserve levels are headed in the right direction, i.e. on the increase, the bulk of the increase lies with Obligatory Funds which are fully committed, with a much smaller increase in Council-directed funds.

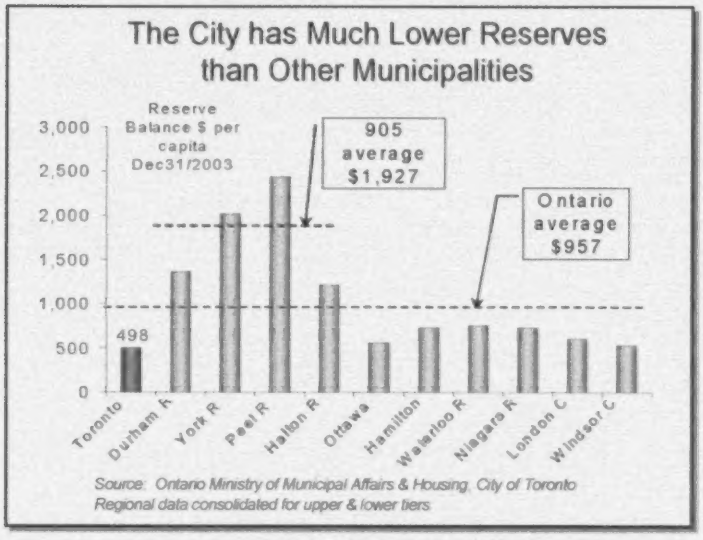


Reserves and Reserve Funds are underfunded

Although the City currently has close to $1.4 billion in reserves and reserve funds, this amount is inadequate both in absolute and relative terms. The reserve levels are not sufficient to meet the obligations for which the funds are set up. Some reserves and reserve funds have been depleted due to fiscal constraints over the past ten years, such as for vehicles and equipment, insurance, employee benefits and snow removal. Some reserve funds are under-funded, such as social assistance and social housing because they were transferred as new responsibilities from the Province without sufficient revenues. A reasonable estimate of the inadequacy (shortfall of the reserve balances relative to the target funding levels) is in excess of $4.4 billion.

Selected Reserve /Reserve Fund	Reserve Inadequacy
Capital e.g. transit, roads, vehicle & equipment replacement, buildings & facilities	$2.3 Billion +
Operating e.g. employee benefit, social assistance stabilization, social housing stabilization, weather, insurance	$2.1 Billion +
Total reserve inadequacy	**$4.4 Billion** +

The City's reserve levels are also low in relative terms. As the chart below indicates, on a per capita basis the City's reserves and reserve funds were the least amongst the major city/regions in Ontario at the end of 2003. In fact the City's reserve per capita was about half of the Ontario average and about a quarter of the 905 average.

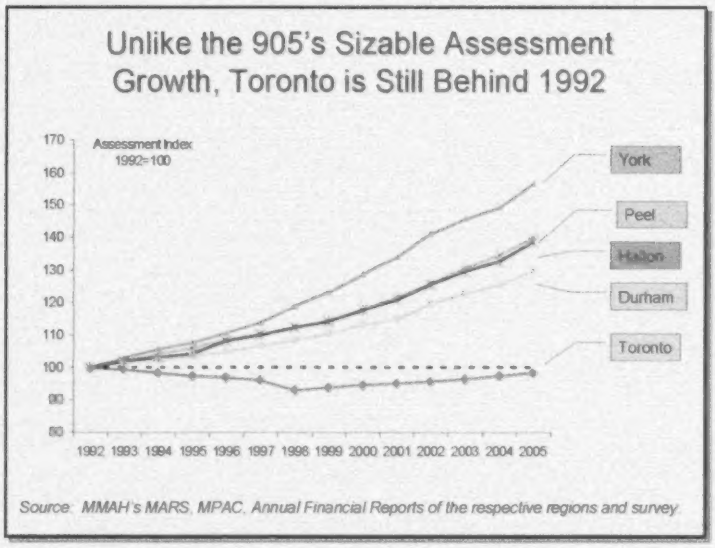


If the City were to attain the same level of reserve balance per capita as the 905 average, the City would have an additional $4.8B in reserves, or almost four times the current balance, with enough funds to completely offset its outstanding debt and fully fund its employee liabilities. Even at the Ontario average per capita, the City would have an additional $1 billion in reserve funds, doubling the current balance.

Unlike surrounding area's sizable assessment growth, Toronto is still behind 1992's level

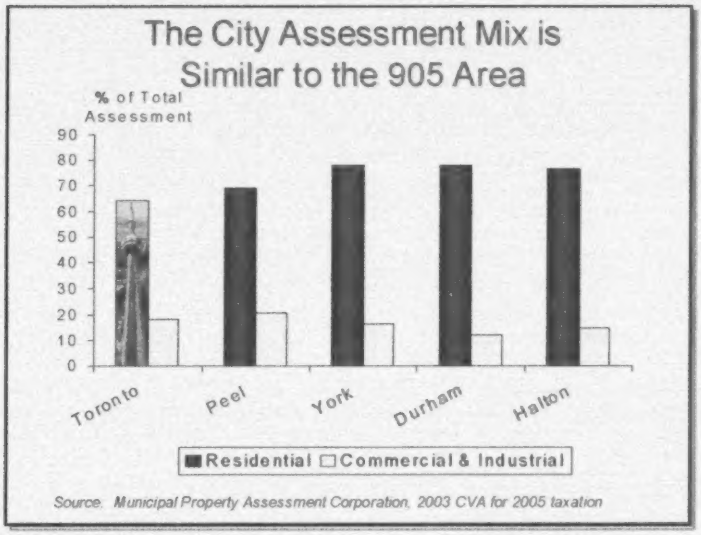
Property taxes represent the funding needed to operate the City after deducting from expenditures all revenues from other sources such as provincial funding of welfare; user fees for transit, recreation and other programs; parking tag and other fine revenues; and corporate revenues including investment returns. Tax rates are calculated by dividing the remaining funds to be raised by the total value of properties in the City (assessment).

True growth in assessment, that is, from new or expanded buildings, means higher property tax revenues for the City. Alternatively, assessment losses can occur due to successful assessment appeals or from demolition of buildings or conversion to facilities with a lesser value, which reduces the property taxes collected. The following figure illustrates true net increases or decreases to the assessment base after eliminating the impact of the change to Current Value Assessment. Unlike the surrounding regions where assessment growth has occurred unabated since 1992, Toronto has only recently begun to regain some of the overall assessment losses that occurred in the early 1990's and has yet to regain the overall assessment base of 1992.



Toronto does not have a much higher proportion of commercial/industrial assessment base

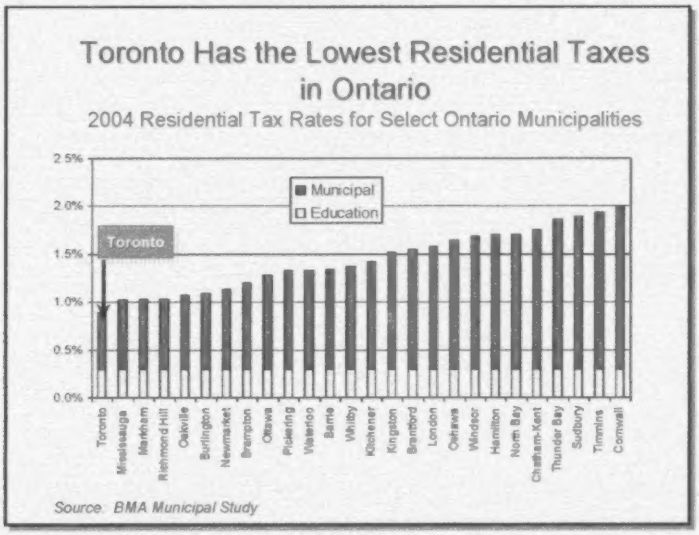
There is a commonly held myth in municipal finance in Ontario that Toronto has a high proportion of its total assessment base made up of commercial/ industrial assessment, which affords additional property taxes that other municipality do not have. This myth is based purely on the image of the downtown's office towers and is not born out by facts. Actually, Toronto has the same proportion of commercial and industrial assessment as Peel Region and only slightly higher than York, Durham and Halton regions. The following figure illustrates this point.

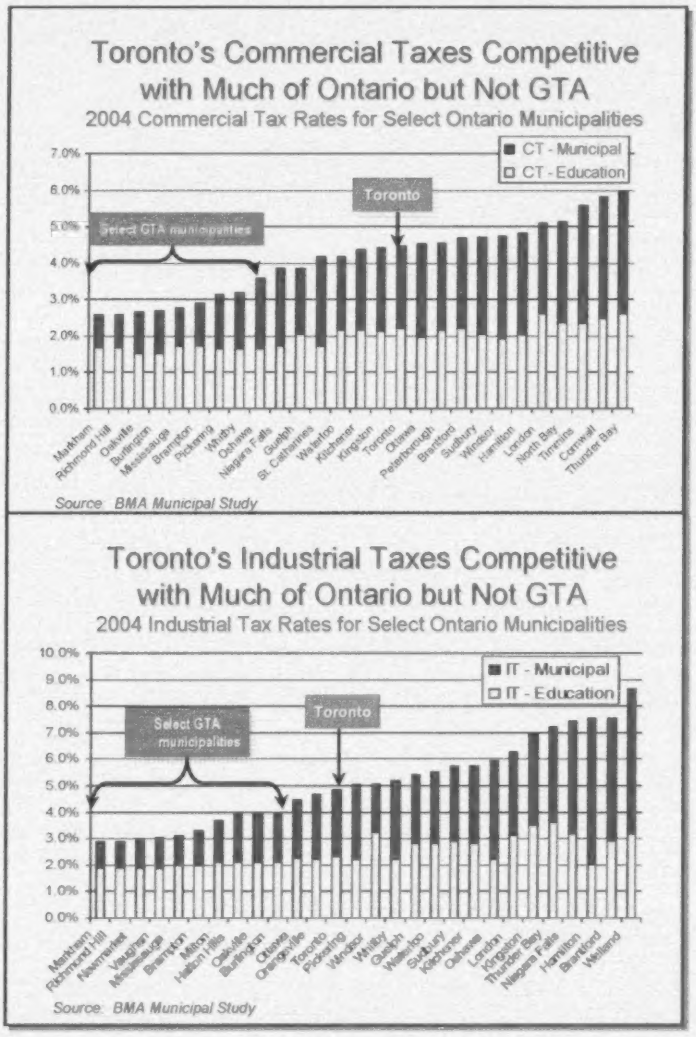


Without an adequate funding base to maintain this infrastructure, the only alternative, other than further disinvestments, is to raise debt levels if taxes are held the same. As per the discussion above, the City's assessment growth would have to be substantial in order to raise the property tax revenues to compensate for the lost Provincial support and to reverse the trend of under maintaining these critical services – roads, bridges, sidewalks, etc. Unlike the other GTA municipalities, additional construction activity is just not providing enough additional cash to get ahead of the maintenance and replacement backlog and while at the same time replacing funding from other orders of government.

There is disparity between Toronto's tax rates and those of the surrounding areas

There is disparity between Toronto's tax rates and those of surrounding areas. With the introduction of Current Value Assessment (CVA) across the Province in 1998, it is now possible to compare tax rates among municipalities. While the City has one of the lowest residential rates in the province, its commercial and industrial rates are substantially in excess of neighbouring areas. The following two figures clearly illustrate this.



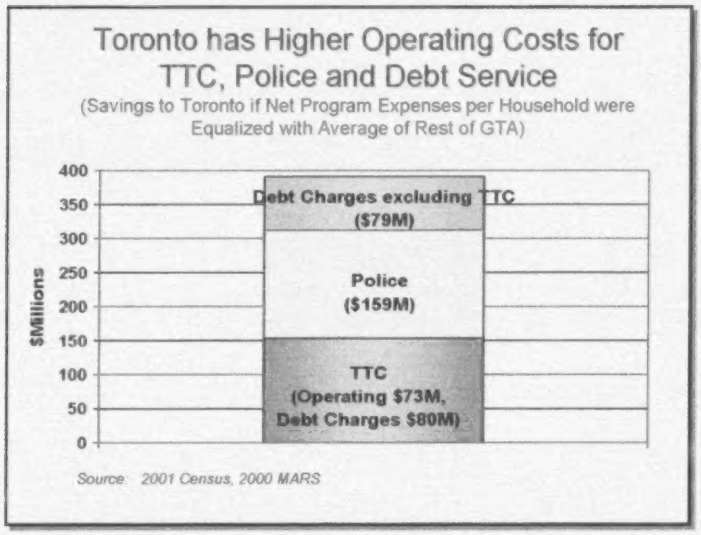


The disparity in tax rates arises from several main factors:

(a) Decades of provincial inaction on assessment reform meant that higher increases during the 1950's through to 1996 in residential values compared with commercial, industrial and business values were not reflected in the assessment base of Toronto such that residential tax rates were kept artificially lower than would otherwise have been the case. By comparison, in the surrounding municipalities where the assessments are much more current, this discrepancy has largely been reflected in the property tax base.

(b) Service demands associated with Toronto's unique demographics and role as the nation's largest city create additional cost demands, particularly relating to Police, transit, and debt service costs. The following chart illustrates that if Toronto's Police, transit and debt service costs per household were the same as in the rest of the GTA, the City would save $400 million a year.

In this respect Toronto is different from other large centres in Ontario and in Canada as the others share this cost burden across the entire city-region contained within their regional boundaries. Without other substantive revenue sources under the City's control, these service demands have to be funded from the property tax base.

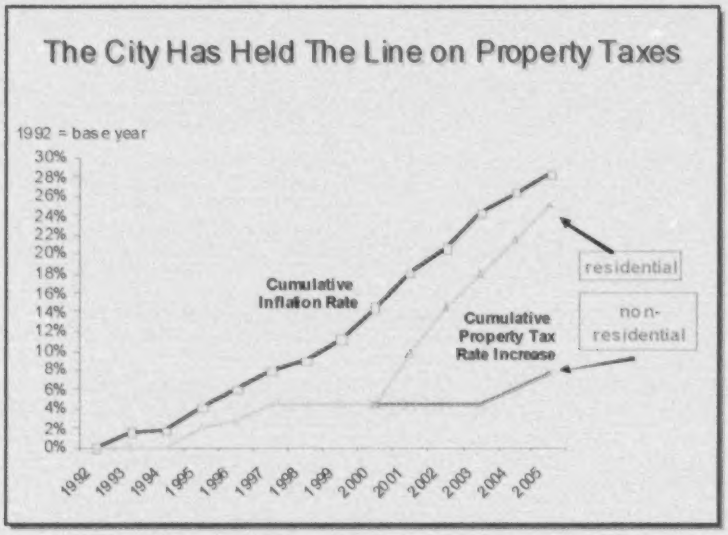


(c) Higher Provincial education tax rates for businesses as compared with other GTA municipalities. If the City's business education tax rate were set at the same level as the GTA average, city business property owners would save a total of $120 million a year.

Addressing the disparity will require a sustained effort over many years, recognizing that the differences in tax rates evolved over many decades and that there are no easy or short-term solutions to the problem. As an illustration, were the City to maintain its residential tax rates at the current rate and lower the business rates to the GTA average, new revenue sources and/or expenditure cuts totalling $370 million per year would be required. This represents almost 13 per cent of the City's net budget and is equivalent to the complete elimination of the Children Services, Transportation and Library net budgets. Addressing the balance of the differences in rates would mean more untenable and unworkable solutions. Alternatively if this discrepancy was simply shifted to the residential tax class, taxes on the average household would rise by 33 per cent.

The City has held the line on property taxes to below inflation rate

On an historic basis, throughout the 1990's, despite rising service demands, higher costs of goods and services purchased by the City and new funding responsibilities from the Province's Local Services Realignment (LSR), the combined efforts of the former municipalities resulted in tax increases well below the rate of inflation. Since 1992, the City has continued to hold property taxes below the inflation rate – Real cumulative residential tax increase has been 3.3 per cent below inflation, and real non-residential tax increase has been 20.7 per cent below inflation, as shown in the following diagram.



An important aspect of the property tax system is that, unlike the federal and provincial governments' revenue sources such as income and sales taxes, there is no automatic increase in property tax revenues with either economic growth or inflation. To raise a single dollar of additional property taxes on the same value of assessment means increasing the tax rate.

This is illustrated by the growth in the economy compared with growth in the revenue bases of the senior governments as follows:

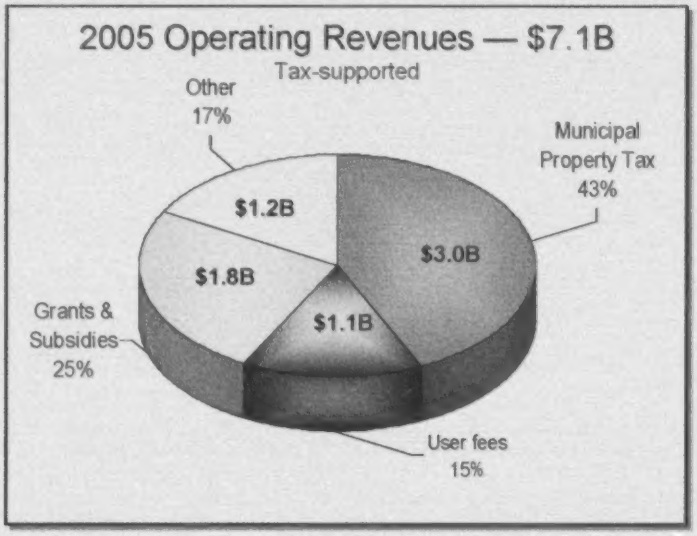
	1992-2004 Growth
Gross Domestic Product at Basic Prices	63%
Inflation	26%
Federal Revenues	52%
Provincial Revenues	64%
Toronto's Revenues (excluding impact of Local Services Realignment *)	21%

It is illustrative to note that, had Toronto's property taxes increased at the same rate as provincial revenues since 1992, the City would be collecting, annually, an additional $1 billion in property taxes today.

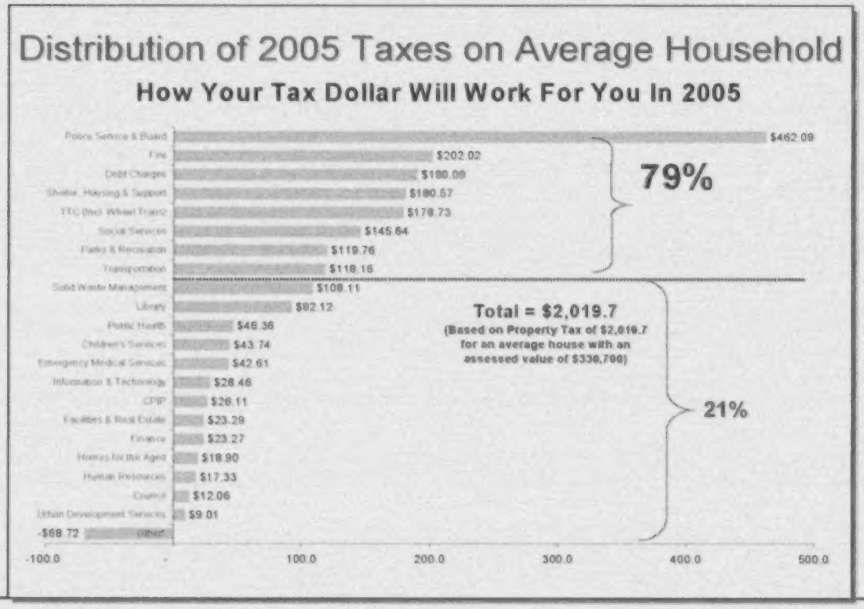
** Local Services Realignment was a process introduced in 1998 by the Province of Ontario whereby financial responsibilities for a number of program areas were passed onto municipalities in exchange for the education tax room, and social assistance and housing costs were "pooled" among GTA municipalities.*

Property tax is the largest source of City revenues

The City's 2005 tax-supported Operating Budget is $7.1 billion. The City collects approximately $3.0 billion in property taxes, which is the largest source of revenue (43 per cent). User fees totalling $1.1 billion rank as the second largest revenue source at 15 per cent. Grants and subsidies from other orders of government (including pooling revenues for social assistance and social housing) are another $1.8 billion (25 per cent). The balance of $1.2 billion or 17 per cent comprises investment income, sale proceeds from surplus properties, etc.



The largest seven municipal services such as Police, Fire, Housing, Social Services, Public Transit, Transportation and Parks, together with Debt Charges, already consume more than 79 per cent of the property tax revenues, as shown in the figure below. Debt charges are the 3rd largest item over which the City has little control. The balance of the 21 per cent of the property tax revenues pays for programs and services such as libraries, garbage pickup and collection, children services, urban planning and development, ambulances and corporate services.



Property Tax Issues – Progress has been made

In 2000 the Province introduced legislation (Continued Protection for Property Taxpayers Act, 2000, or "Bill 140") which has significant implications on municipal finances for some cities. The primary implication of Bill 140 is a restriction from passing on municipal levy increases to the commercial, industrial and multi-residential classes in those municipalities (like Toronto, Ottawa and Hamilton) where the tax ratios for these classes exceed the provincial threshold ratio. Toronto's non-residential tax rates in Toronto are now four-times that of the residential tax rate under CVA. In other words, the non-residential tax ratios are four-times that of residential. The threshold tax ratios range from 1.98 for commercial to 2.74 for multi-residential. Under the provisions of Bill 140, this means that no municipal levy (budgetary) increases can be passed on to these business classes so long as the ratios exceed the threshold limits. The consequence is that only the residential property class can bear the tax burden due to budgetary increases. If the entire tax base can be accessed, 1 per cent property tax increase would generate $30 million. However, under Bill 140 the same percentage increase could only generate $12 million on the residential class.

During 2001 through 2004, the City faced unprecedented property tax funding pressures from the cumulative effect of downloading and the utilization of one time funding sources to offset some of the pressures incurred during the early years of amalgamation. As a result of the budgetary levy increase restrictions imposed on Toronto, these increased costs were solely borne by the residential property class, resulting in a cumulative tax increase on homeowners of over 16 per cent during this period. The City recognized that the funding for a number of the major services, in particular the TTC, is not sustainable through the property tax base. As a result, the City has been pressuring the Province to remove the budgetary levy increase restrictions on Toronto, as well as encouraging the senior levels of government towards a fairer and sustainable funding arrangement and relationship.

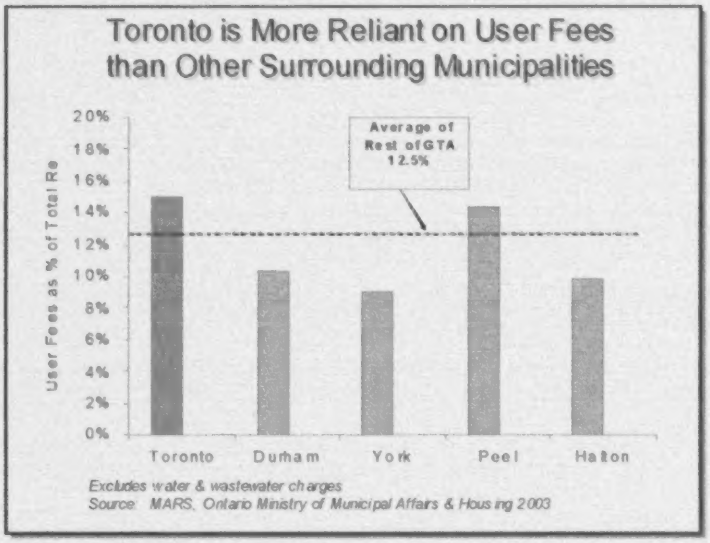
More recently, both the Provincial and Federal Governments have acknowledged and recognized the sustainable funding issues of municipal governments, and are taking action in this regard. As explained in fuller details in a later section, a new tripartite funding arrangement is underway to invest more than $1 billion in transit expansion and renewal over the next five years, including providing two cents of the existing provincial gas tax to municipalities for public transit; increasing the Province's share of public health costs from 50 to 75 per cent over three years, uploading $127 million from the budgets of municipalities by 2007; fully rebating the Goods and Services Tax (GST) paid by municipalities; and increased support for community-based economic development and the social economy.

Together with these changes, the City is now better positioned to re-examine its longer term tax policies. To this end, the Province announced adjustments to the municipal rules under the Ontario Property Tax System for 2004. These adjustments enabled the avoidance of the tax burden shift from the commercial class to the residential and multi-residential classes that would otherwise have occurred due to the changes in CVA for 2004, and provided partial relief from the budgetary levy restrictions imposed on municipalities whose tax ratios were above the provincial threshold level (e.g. Toronto). The announcement also provided additional tools to allow municipalities to progress toward full CVA taxation, together with additional options for targeting tax reductions to small business properties.

These adjustments are intended as interim or stop-gap measures for 2004, and to enable a consultative process to allow for the identification of legislative and regulatory changes to improve the stability, fairness, flexibility and simplicity of the property tax system starting in the 2005 taxation year.

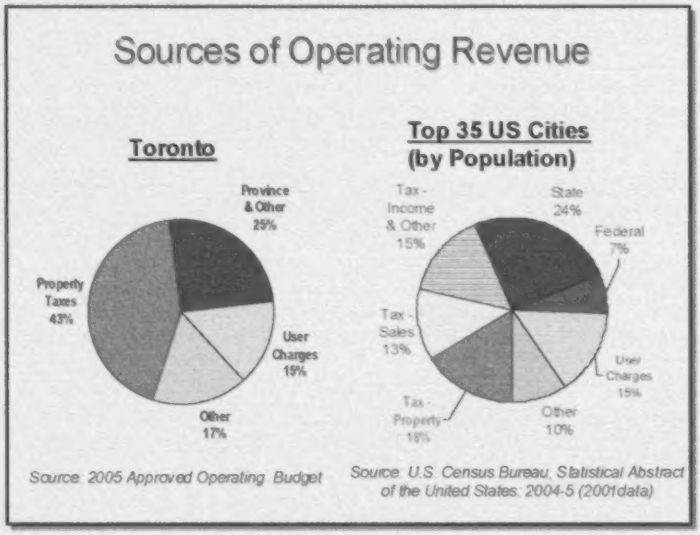
Toronto is more reliant on user fees than surrounding municipalities

User fees represent an important funding source for the City and are derived from numerous sources such as T.T.C. fares, parks and recreation fees, licensing and building permit fees, and charges for homes for the aged and child care. As shown in the following figure, the City is already deriving proportionately more of its operating revenues from user fees than surrounding municipalities and is relying to a much higher extent than it was in 1990 on user fees as a source of revenue.



Toronto does not have the financial flexibility enjoyed by U.S. cities

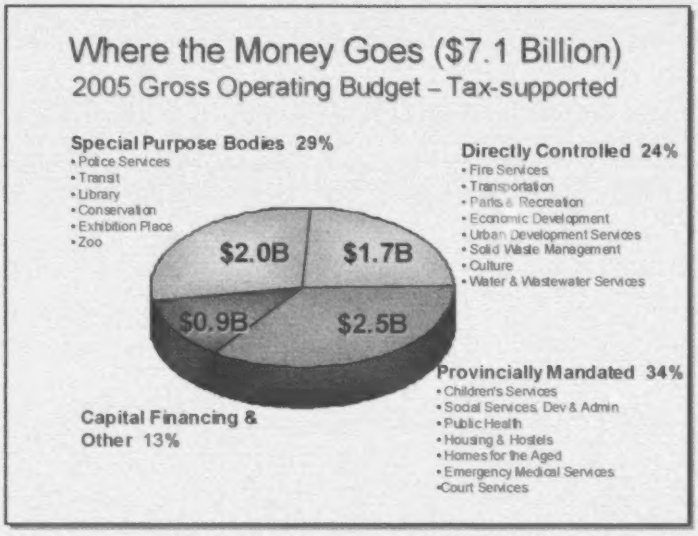
The City of Toronto does not have the financial flexibility enjoyed by most U.S. cities. U.S. municipal governments draw on a wide array of financing mechanisms, including local income and sales taxes, and greater support from State and Federal Governments, as the following figure shows.



The composition of City's expenditures limits its flexibility

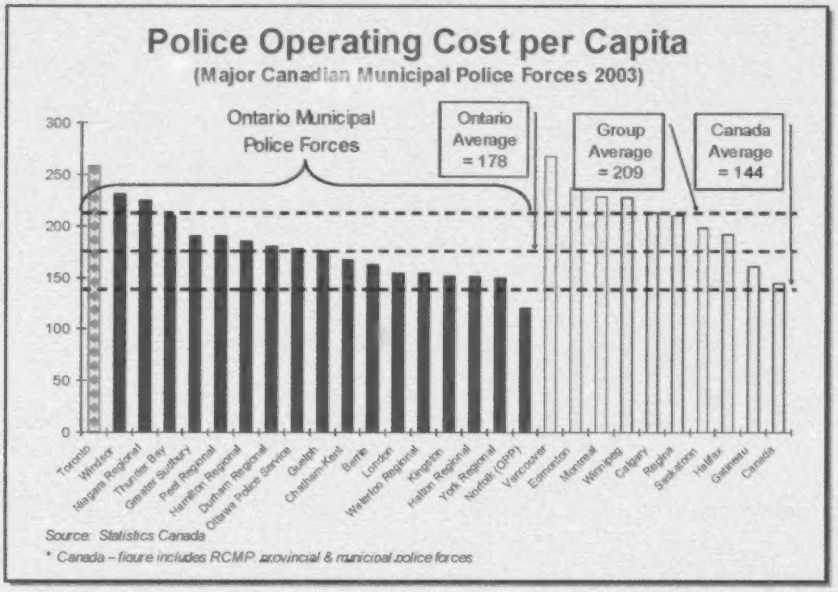
On the expenditure side, the City has somewhat limited ability to make major changes. This is represented in the pie chart below.

- Over one-third of the $7.1 billion gross tax-supported budget (or 34 per cent) is provincially mandated, including Children Services, Social Assistance, Social Development and Administration, Public Health, Social Housing, Homes for the Aged, Emergency Medical Services, Court Services, etc.
- Special Purpose Bodies, e.g. Police Services, T.T.C., public libraries, the Exhibition Place and the Zoo, make up 29 per cent of the gross expenditure budget. These organizations are operated separately from the City.
- Capital Financing and other programs require 13 per cent of the gross expenditure budget which are heavily influenced by past decisions (e.g. capital borrowing) or external factors, e.g. property tax write-offs.
- This leaves only 24 per cent of the gross budget for programs that the City has direct control over, e.g. Parks & Recreation, Transportation Services, Economic Development, Solid Waste, Water & Wastewater, etc.



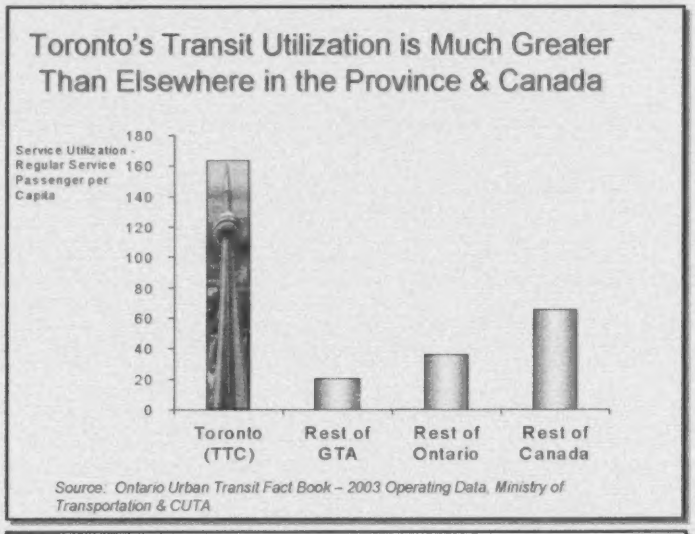
Police costs are the highest single program responsibility

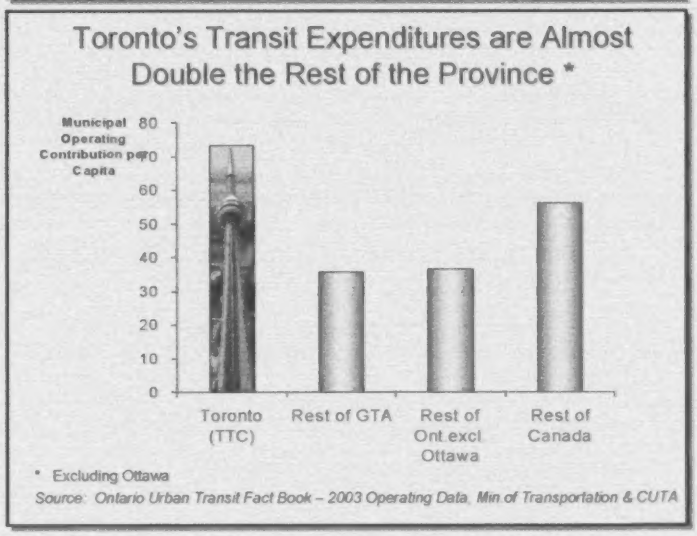
Policing costs are the largest single program responsibility for most municipalities, including Toronto. Toronto's per capita costs are at a level comparable to other major Canadian cities, but significantly higher than most other communities in Ontario. Toronto's police operating costs per household are almost 50 per cent higher than the Ontario average. This is further discussed in a later paragraph with respect to the Municipal Performance Management Program (MPMP). These costs make it more difficult for Toronto to deal with other budget pressures.



Toronto's transit system (TTC) is very efficient but the cost burden is clearly unsustainable

The City's transit system (TTC) is very efficient, with the much higher transit utilization than elsewhere in the Province and in Canada. Yet, Current municipal transit expenditure per capita for Toronto is almost twice that of the rest of Ontario. As discussed in an earlier section, the transit cost burden became clearly unsustainable after the funding changes implemented by the Ontario government in the latter 1990's, when Provincial operating subsidies (50 per cent) and capital subsidies (75 per cent) were eliminated or phased out.





Toronto's social service costs are vulnerable to Provincial decisions

Toronto also has a higher burden of social service costs, due to migration and settlement pattern and resultant large City demographics. The capping of subsidies by the Province for cost-shared social programs is a serious problem for the City. These programs include Hostels, Disability Support/Dental Benefits of the Social Assistance Program, Ontario Works Administration, Public Health and Emergency Medical Services. Social Assistance and Social Housing costs, which are equalized according to assessment shares in the GTA, are also vulnerable to Provincial administrative decisions which can affect equalization payments and create uncertainty about past and future obligations.

The City has been taking action

The City of Toronto has made significant efforts to find the means to fund its responsibilities from within, while dealing with inherited tax inequities between property classes. Staffing in programs that were amalgamated in 1998 has been reduced significantly. Under the Municipal Performance Measures Program (MPMP) the City's costs (except as noted above) are comparable to those in other jurisdictions. New City initiatives such as the Auditor General Office and Integrity Commissioner provide innovative safeguards.

The City has achieved $153 million annual savings from amalgamation

The amalgamation of the seven former municipalities took place in 1998, the same time as the City took on new responsibilities under the Province's Local Services Realignment initiative. Over the first three years of amalgamation, the City successfully removed, on a permanent basis, $153 million in expenditures ($136 million in tax-supported, and $17 million in rate-supported expenditures). This exceeded provincial estimates of the savings from amalgamation, which it had forecasted to be between $82 million and $112 million. The reductions achieved represented a nine per cent spending reduction for the amalgamating programs. Only 27 per cent of the City services were amalgamated. All other services had previously been amalgamated under the Metro level of government.

Staffing was reduced by more than 1,700 positions at the time, mainly through elimination of management positions through consolidation of operations of the former seven municipalities. This represented a reduction of 60 per cent of the executive positions and 34 per cent of management positions in the amalgamating programs.

However, between 1997 and 2000, the City faced financial pressures in all service areas, which absorbed all of the amalgamation savings. This included the impact of salary settlements, since most employees had not had increases since the early 1990's, and higher costs of goods and supplies, utilities and contracts due to inflation. As well, the City had to absorb the impacts of provincial downloading, including higher debt costs as future impacts of subsidy loss were starting to be phased in.

At the time of amalgamation, the Province estimated that the City should achieve efficiency savings of $148M to $252M. Such savings were to come from ALL programs including those previously amalgamated such as police and transit, through changes to collective agreements in the future as well as alternate service delivery and contracting out. Yet, amalgamation has had little impact on previously amalgamated services (73 per cent of gross expenditure).

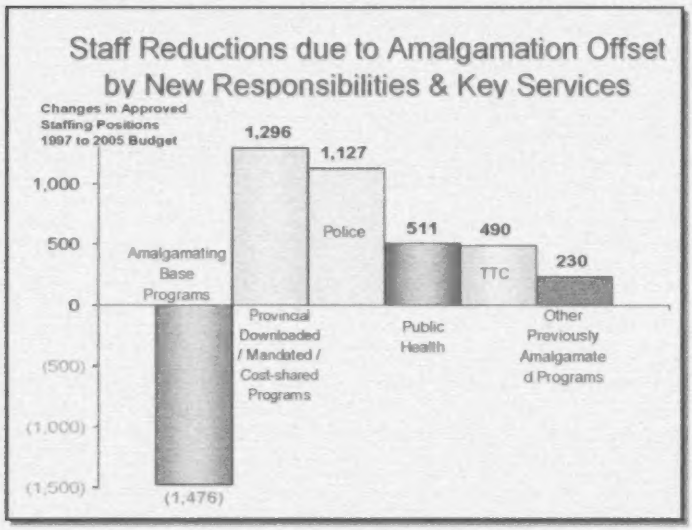
The City's ability to produce further savings is constrained by programs that had been subjected to significant expenditure restraints of more than $500 million during the 1990's. It dealt with permanent increases to welfare caseloads, previous provincial downloading from the Expenditure Control Program and Social Contract, and cumulative assessment losses.

The City has reduced staff in the amalgamating programs, however these are offset by new responsibilities and key services

Over the past seven to eight years, previously amalgamated programs experienced significant service needs and pressures requiring changes to their budgets and staffing levels. These are some of the City's largest programs and they continued to experience normal service demands and budget pressures over this time period associated with a growing and changing population. The provincial downloading of responsibility for the provision and staffing of additional functions in the City's social programs as well as Court Services has also resulted in a significant increase in staffing. These issues are however, completely unrelated to amalgamation.

All previously amalgamated or downloaded programs had a net increase in the number of approved positions over the past seven years. The increased staffing in these programs was primarily due to provincial downloading or increases in service levels with the majority of the increases occurring in the following eight programs which alone account for a net increase of 3,311 positions: Children Services, Shelter Housing & Support, Social Services, Emergency Medical Services, Police, TTC, Public Health and Court Services.

In total there has been a net increase of 2,117 positions over the period 1998 through 2005 with amalgamating programs experiencing a net decrease of 1,476 and previously amalgamated or downloaded programs having a net increase of 3,653 positions (downloaded programs: 1,296, TTC: 1,127, Public Health: 511, Police: 490, and other previously amalgamated programs: 230).



City Council has taken actions to improve City's financial condition and performance

To date City Council has taken actions to improve the City's financial condition and performance. They include:

- Tax freezes from 1998 to 2000 to address competitiveness and provide a "dividend" from amalgamation
- Actions on increasing base of user fees (e.g. water rate increases of six to nine per cent over the past three years)
- Increases to Capital from Current contributions since amalgamation
- Application of proceeds from Toronto Hydro to support capital program
- Improvements to funding of selected reserves (e.g. social assistance stabilization)
- Implementation of improved management processes to improve financial management, e.g. Strategic Plan Fiscal Principles, new budget process, improved financial control and purchasing by-laws, enhanced controls over consulting expenditures, implementation of benchmarking, enhanced business planning approaches
- Approving financial protocol for reporting of recommended policies and actions to Council on all financial implications
- On-going work with other orders of government for financial support for municipal services
- Implementation of the Auditor General position independent of the City administration in order to improve accountability and strengthen Council's role in overseeing the City's business by reporting through the Audit Committee on financial and performance audits of City programs
- Implementation of the Integrity Commissioner position
- Improvements in financial systems and controls
- Three initiatives in performance measurement: benchmarking performance with other cities in Ontario such as the Ontario Municipal CAOs Benchmarking Initiative (OMBI); tracking its own program and service performance internally and meeting the requirements of the Provincially mandated Municipal Performance Measurement Program (MPMP). MPMP is discussed in the following section.
- Sale of the City's surplus real properties, using the proceeds to fund City's priorities. Since amalgamation, total proceeds of sale of surplus properties were $155 million from 314 transactions as of November 18, 2004.
- Space standards for staff were reduced to make more efficient use of the office space the City owns and staff were moved out of leased premises into owned buildings to save money. Under the Council-approved Master Accommodation Plan, the use of office space has been rationalized further.

The City will continue to strive for improvements in service quality and standards through a variety of effective and efficient service delivery models. It will continue to strive to obtain the best value through continuous improvement and performance tracking.

Municipal Performance Measurement Program (MPMP) demonstrates the City's accountability to its citizens

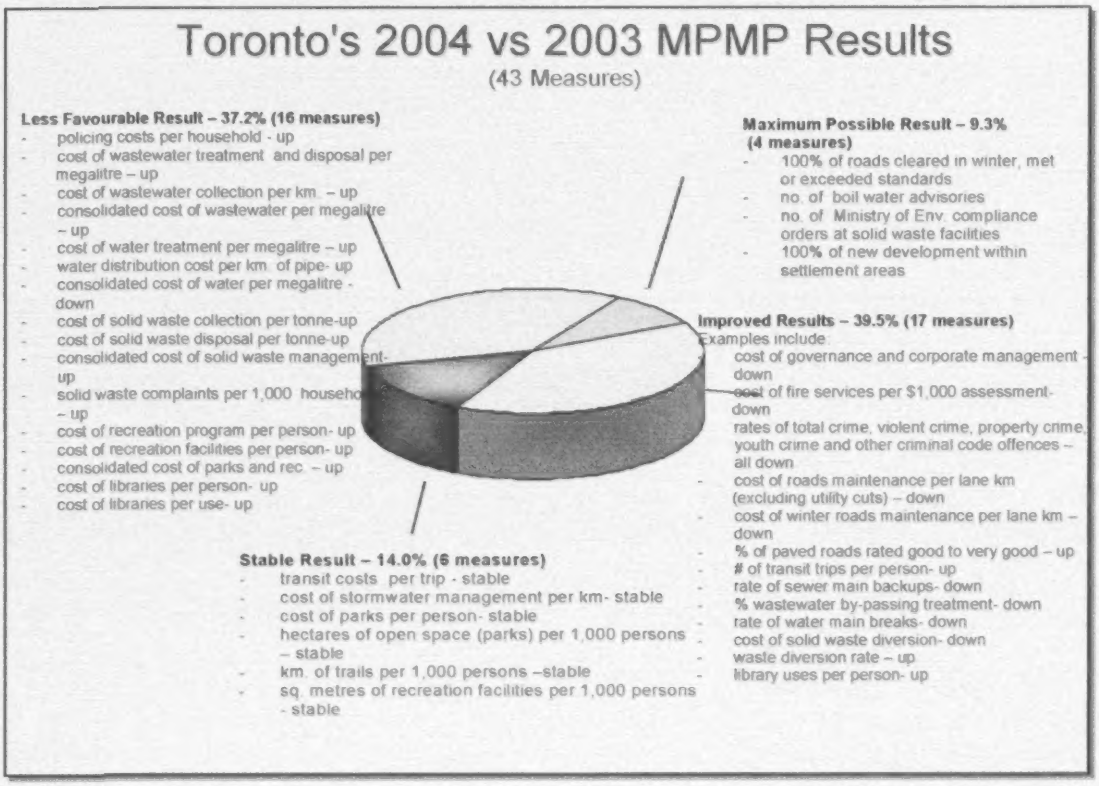
The Province introduced the Provincial Municipal Performance Measurement Program (MPMP) in October 2000 indicating that "Ontario municipalities have more authority now than they had in the past and, with increased authority, comes the need for greater accountability." Additional provincial objectives for MPMP are to improve service delivery, share best practices within and among municipalities and to increase taxpayer awareness. In 2003 all municipalities were required to report 2002 results on twenty-five performance measures (thirty-two including component measures applicable to the City of Toronto), to taxpayer as well as the Ministry of Municipal Affairs and Housing. The ten service areas covered by the performance measures were Solid Waste, Water, Stormwater, Wastewater, Roads, Public Transit, Fire, Police, Land-use Planning, and Local Government.

Each municipality's results are impacted differently by their own unique factors that can limit the value of municipal comparisons, including:

- Urban form — urban, rural or mixed
- Age of infrastructure
- Government structure — single-tier or two-tier
- Level of responsibility — may vary even for two-tier governments, e.g. waste collection, waste disposal or both
- Service standards and levels

The City fared well in 2004 MPMP, given its unique characteristics

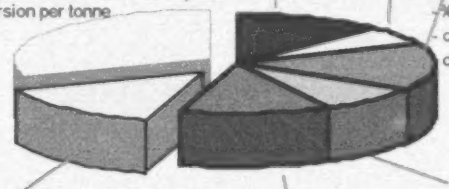
In 2004, of the 43 performance measures reported, approximately 63% of the measures achieved the maximum possible result, an improved result or a stable result relative to 2003. For a number of efficiency measures, the cost per unit has increased in 2004 as compared with 2003. These increases are not, however, an indication of inefficiency but usually have resulted from factors such as increased wage rates arising from collective agreements.


Toronto's 2004 vs 2003 MPMP Results
(43 Measures)
Less Favourable Result – 37.2% (16 measures)
- policing costs per household - up
- cost of wastewater treatment and disposal per megalitre – up
- cost of wastewater collection per km. – up
- consolidated cost of wastewater per megalitre – up
- cost of water treatment per megalitre – up
- water distribution cost per km. of pipe- up
- consolidated cost of water per megalitre - down
- cost of solid waste collection per tonne-up
- cost of solid waste disposal per tonne-up
- consolidated cost of solid waste management- up
- solid waste complaints per 1,000 household – up
- cost of recreation program per person- up
- cost of recreation facilities per person- up
- consolidated cost of parks and rec. – up
- cost of libraries per person- up
- cost of libraries per use- up
Maximum Possible Result – 9.3% (4 measures)
- 100% of roads cleared in winter, met or exceeded standards
- no. of boil water advisories
- no. of Ministry of Env. compliance orders at solid waste facilities
- 100% of new development within settlement areas
Improved Results – 39.5% (17 measures)
Examples include:
- cost of governance and corporate management - down
- cost of fire services per $1,000 assessment- down
- rates of total crime, violent crime, property crime, youth crime and other criminal code offences – all down
- cost of roads maintenance per lane km (excluding utility cuts) – down
- cost of winter roads maintenance per lane km – down
- % of paved roads rated good to very good – up
- # of transit trips per person- up
- rate of sewer main backups- down
- % wastewater by-passing treatment- down
- rate of water main breaks- down
- cost of solid waste diversion- down
- waste diversion rate – up
- library uses per person- up
Stable Result – 14.0% (6 measures)
- transit costs per trip - stable
- cost of stormwater management per km- stable
- cost of parks per person- stable
- hectares of open space (parks) per 1,000 persons – stable
- km. of trails per 1,000 persons –stable
- sq. metres of recreation facilities per 1,000 persons - stable

As well, when Toronto's 2003 results are compared with the other municipalities also reporting to MPMP, it is found out that 55 per cent (or 18 out of 33) of Toronto's results are better than the municipal average. (2004 comparatives are not available until after September 2005.)

The following chart summarizes Toronto's 2003 MPMP with respect to the 33 measures, comparing results with those of the average of other Ontario municipalities.

Toronto's 2003 MPMP Results Versus Other Ontario Municipalities (33 Measures)



Best possible result - 12.1% (4 measures)
- 100% of roads cleared in winter, met or exceeded standards
- no boil water advisories
- no Ministry of Environment compliance orders at solid waste facilities
- 100% of new development within settlement areas

In bottom quartile - 30.2% (10 measures)
- cost of police services per household
- violent crime rate
- cost of roads per lane km.
- cost of winter roads maintenance per lane km.
- % of wastewater by-passing treatment
- cost of stormwater management per km.
- cost of water distribution per km.
- # of water main breaks per km of pipe
- cost of solid waste transfer/disposal per tonne
- cost of solid waste diversion per tonne

Top result of municipalities - 6.1% (2 measures)
- # of transit trips taken per person
- cost of drinking water treatment per megalitre

In top quartile- 15.2% (5 measures)
- cost of transit per trip
- other criminal code offence rate
- % of road condition rated good to very good
- cost of governance and corporate management
- consolidated cost of drinking water per megalitre

In second quartile - 9.1% (3 measures)
- cost of fire services per $1,000 assessment
- total crime rate
- consolidated cost of wastewater per megalitre

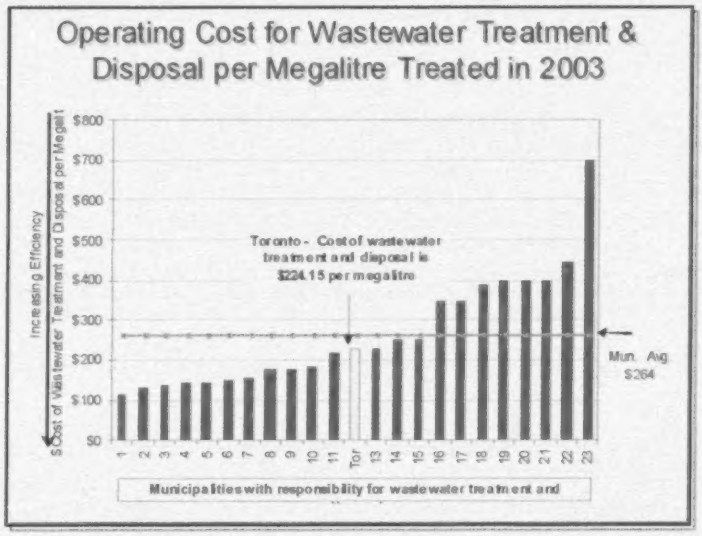
In third quartile - 15.2% (5 Measures)
- property crime rate
- youth crime rate
- cost of wastewater collection per km of pipe
- consol. cost of solid waste management
- % of solid waste diverted

Close to but better than average - 12.1% (4 measures)
- cost of wastewater treatment per megalitre
- rate of sewer main back-ups per 100 km. of sewer line
- cost of garbage collection per tonne
- complaint rate for solid waste collection

The ensuing paragraphs take a closer look at three financial performance measures:
- Operating Cost for Wastewater Treatment and Disposal per Megalitre
- Operating Cost for Solid Waste Collection per Tonne
- Operating Cost for Police Services per Household

Toronto's 2003 results are compared with those of other Ontario municipalities, and the factors affecting Toronto's results are discussed.

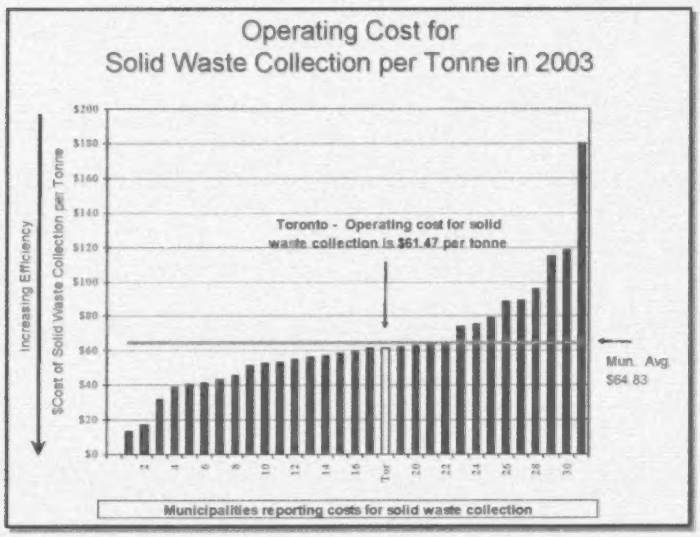
The City's operating cost for Wastewater Treatment and Disposal per megalitre was below Provincial average


Operating Cost for Wastewater Treatment & Disposal per Megalitre Treated in 2003
Increasing Efficiency
$Cost of Wastewater Treatment and Disposal per Megalit
$800
$700
$600
$500
$400
$300
$200
$100
$0
Toronto - Cost of wastewater treatment and disposal is $224.15 per megalitre
Mun. Avg. $264
1 2 3 4 5 6 7 8 9 10 11 Tor 13 14 15 16 17 18 19 20 21 22 23
Municipalities with responsibility for wastewater treatment and

Key factors influencing Toronto's results in relation to other municipalities include:

- Service Levels – All treatment plants in Toronto are full treatment facilities employing primary, secondary and phosphorous (tertiary) treatment processes.
- Service Standards – Toronto's standards are high and exceed Ministry of Environment regulations, e.g. wastewater monitoring program.
- Combined vs. Separated Systems – Toronto has an extensive combined sanitary and storm sewer system (over 24 per cent). Costs may be higher than other municipalities with separated systems.
- Age of infrastructure – The oldest wastewater treatment plant has been in operation since 1929 and can be more costly to maintain than newer plants.

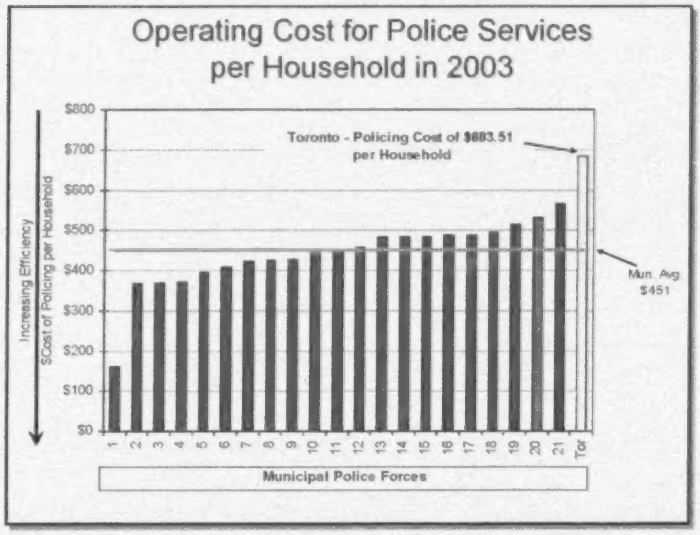
The City's operating cost for Solid Waste Collection was below Provincial average



Key factors influencing Toronto's result in relation to other municipalities include:

- Commercial Collection - Many other municipalities have no commercial collection, however 18,000 businesses are served in Toronto.
- Urban Form- Many of Toronto's routes are densely populated with on-street parking, one way streets and heavy traffic volumes that impact collection efficiency. There is bulk-lift collection at apartments which tends to be less costly than curbside collection and accounts for approximately 48% of the households collected from.
- The extent of recycling efforts - Since Toronto's overall diversion rates are lower (diversion rates from our 462,000 apartment units are low) than a number of other municipalities, the tonnage of solid waste collected may be proportionately higher than in other municipalities.

The City's 2003 operating cost for Police Services per household was above Provincial average



Key factors influencing Toronto's results in relation to other municipalities include:

- Beneficiaries of Police Services – The denominator (number of households) used in the calculation of this measure, only addresses the residential sector of the City. There are a number of other groups that also benefit from police services that are not recognized in the calculation including an estimated daily influx of 286,900 vehicles and 351,300 persons from surrounding regions, approximately 16 million tourists per year and the business, commercial and industrial sectors.
- Specialized Services – Toronto is an international city requiring specialized services at elevated levels that may not be available or necessary in other municipalities (e.g. Emergency Task Force, Public Order Unit, Emergency Measures, Intelligence units targeting terrorist

groups, providing security for visiting dignitaries, targeting hate crime, Sex Crime Unit, Fugitive Squad, Mounted Unit, Marine Unit, Forensic Identification Unit)

- Other factors -- Toronto's position as the centre of business, culture, entertainment, governance, and sporting activities in the Greater Toronto Area and its ethnically and culturally diverse populations, all pose special demands on the police service and impact policing costs.

The MPMP, as it is evolving, provides a recognized framework to demonstrate the City's accountability to its taxpayers and other orders of government. By and large, Toronto measured up to standards of the Province and other Ontario municipalities.

The City's credit rating — How competitive is Toronto amongst other major Canadian cities?

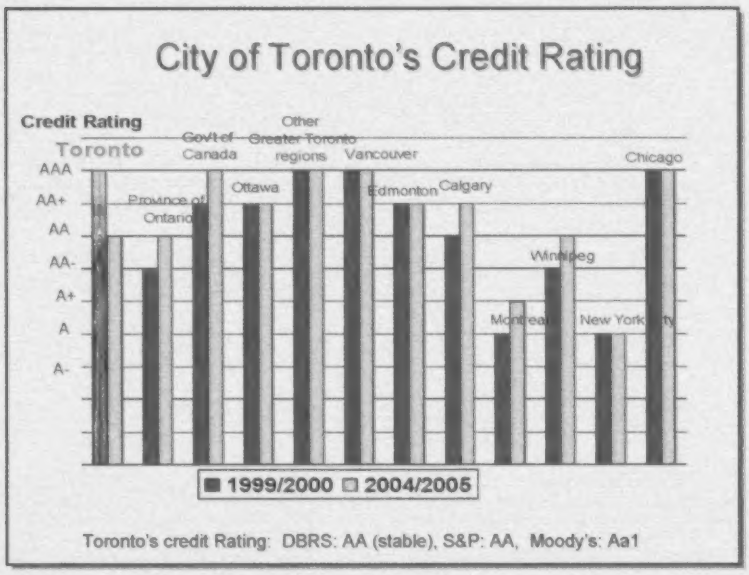
Credit ratings provide an independent assessment of the credit quality of a debt issuer.

In September 2002 Moody's Investors Service upgraded the City of Toronto's long-term debt rating from Aa2 to Aa1. In making its assessment, Moody's specifically highlighted the City's strong fiscal performance in the face of many organizational and financial challenges in recent years, combined with an increased provincial presence in funding municipal infrastructure projects. Moody's also credited the upgrade to Toronto's effective management of amalgamation and maintenance of reserves, along with low relative debt burdens and a highly diversified and resilient economy.
Since then all three credit rating agencies have confirmed the ratings for the City's long-term debt.

The following table shows the City's credit rating history:

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Moody's	Aa2	Aa2	Aa2	Aa2	Aa2	Aa1	Aa1	Aa1	Aa1
Standard & Poor's	AAA	AA+	AA+	AA+	AA+	AA	AA	AA	AA
Dominion Bond Rating	AAA	AA high	AA high	AA high	AA high	AA	AA	AA	AA

Moody's upgrade of the City's credit rating shows that the positive steps taken by the Province (increased infrastructure funding) have already started to bear fruit — this will not only help lower the City's cost of borrowing to support its capital works program, but also reflect an independent organization assessment of the City's strength. However, the City needs a firm long-term commitment from both orders of government on the necessary funding tools to again start building the City.



In early 2004, Dominion Bond Rating Service (DBRS) released its 2003 review (based on 2002 results) of eight Canadian municipal governments—Vancouver, Edmonton, Calgary, Winnipeg, Toronto, Ottawa, Hamilton, and Peel (region). Similarly, Standard and Poor's (S&P) issued its Industry Report Card for Canadian Municipalities, reviewing the performances of 35 Canadian cities in 2003 including Toronto. The themes and key points contained in the respective reviews are summarized in the following sections.

A. Dominion Bond Rating Service (DBRS)

The fiscal positions of the eight municipal governments remained quite strong, and compared favourably with historical results. However, after several years of improved fiscal results, most municipalities included in this study experienced a modest weakening in 2002 due to lower net earnings realized by subsidiary energy corporations, expanded spending programs, and higher labour costs. Ongoing growth in spending, fuelled by labour and capital maintenance, will likely start cutting into the fiscal results in the next few years.

The following table compares the DBRS credit ratings (for long-term debt) amongst the above-mentioned eight municipal governments:

	Peel	Vancouver*	Edmonton	Ottawa **	Hamilton *	**Toronto**	Calgary	Winnipeg
Credit rating	AAA	AA (high)	AA (high)	AA (high)	AA (high)	**AA**	AA	AA (low)

* Vancouver and Hamilton received negative rating actions in 2003, while all others exhibited stable trends:
Vancouver – downgraded from AAA due to the continued increase of net tax-supported debt
Hamilton – trend change from Stable to Negative due to deteriorating outlook for net tax-supported debt
** Ottawa – While long-term rating was unchanged, the trend remained Negative for the second year, reflecting uncertainty over the City's ability to meet medium-term capital requirements

While assessing the creditworthiness of municipalities, DBRS considers mainly seven factors which are displayed in the following table as column titles. Municipal credit ratings are determined based on the relative risks around the seven factors. A black box indicates a high risk or an item that poses a greater challenge to a municipal government, while a white box indicates a low risk and hence, a positive consideration for its credit rating. A grey box indicates medium risk, and is neutral for the rating.

Rating Considerations
Relative Risk: High ■ Moderate ▒ Low □

	Long-term Debt Rating	Net tax-supported debt per capita	Core surplus/ (deficit) after capital expenditures	Capital financing pressures	Economy & taxable assessment	Tax & user fee burden	Liquidity position	Risk profile & responsibilities
Toronto	AA	▒	▒	■	□	■	□	■
Ottawa	AA (high)	▒	▒	■	□	▒	□	■
Hamilton	AA (high)	■	▒	■	▒	▒	□	■
Peel	AAA	□	□	▒	□	▒	□	▒
Winnipeg	AA (low)	■	□	▒	▒	■	□	▒
Calgary	AA	■	□	▒	□	▒	□	▒
Edmonton	AA (high)	□	□	▒	□	□	□	▒
Vancouver	AA (high)	▒	□	▒	□	▒	□	□

* Debt includes contingent liabilities and long-term commitments

These eight municipalities, which are located in four provinces with different jurisdictions, have quite different roles and responsibilities, which may explain the above-mentioned relative risks.

	Ontario Municipalities	Winnipeg	Calgary & Edmonton	Vancouver
Social Housing	Yes	No (1)	Yes (2)	No (3)
Social Assistance	20% municipality, 80% Province	Cost to Winnipeg fixed at $18M/yr	No	No
Public Health	Province covers 50% of eligible costs	No	No	No
Police & Fire Services	Yes	Yes	Yes	Yes
Water & Sewer	Yes	Yes	Yes	Yes (4)
Solid Waste Disposal	Yes	Yes	Yes	Yes
Public Transit	Yes	Yes	Yes	No (5)
Education Property Tax Collection	Yes	Yes	Yes	Yes

(1) Province of Manitoba is responsible for delivering social services, but the City of Winnipeg provides partial funding
(2) Calgary & Edmonton have housing corporations that are largely funded by other levels of government
(3) Vancouver delivers Social Housing services, but is fully reimbursed by the Province of British Columbia
(4) Vancouver's water & sewage treatment services are performed by a 3rd party & partially funded through municipalities
(5) Vancouver's public transit is the responsibility of the regional government, with service provided by a 3rd party & partially funded through municipalities

Ontario's municipalities have high risk profile because they are responsible for some income distributive programs which are dependent on the economy (100 per cent of Social Housing, 20 per cent of Social Assistance, and 50 per cent of Public Health costs). These responsibilities are significantly different from those of Winnipeg, Calgary, Edmonton and Vancouver. In addition, exposure to negative policy changes is most evident in Ontario municipalities, where the ability to raise property taxes on certain tax classes was capped by Bill 140.

Of the eight cities included in the review, those showing improved operating results in 2002 were:

(a) Toronto, which was driven by healthy growth in user fee revenues with broad-based under-spending across most city departments; and
(b) Winnipeg, which was propelled by a substantial gain on the sale of its electric subsidiary corporation.

In its rating considerations for the City of Toronto (AA Stable), DBRS recognized Toronto's strengths and challenges:

Strengths:

(i) Strong and diversified economy
(ii) Good fiscal management
(iii) Ownership of Toronto Hydro Corporation
(iv) Strong financial control

Weaknesses:

(i) Ongoing management of capital funding pressures
(ii) Uncertainty regarding provincial and federal funding
(iii) Heavy business property tax burden
(iv) Exposure to economy-sensitive program expenditures
(v) Relatively high employee benefit liabilities

The attached appendix consists of 12 select financial and economic indicators (based on 2002 data), comparing Toronto with the other seven counterparts. Overall, Toronto fared relatively well.

Figure 1 — Operating revenues by function
Ontario municipalities, including Toronto, display the highest weightings of funding from other orders of government. However, this does not mean a higher level of other government support, but rather a reflection of additional funding intended to partially cover the costs of delivering social services and housing, responsibilities that are not required by most of the other municipalities.

Figure 2 — Surplus/(deficit) after capital expenditure per capita
Toronto is in the middle of the pack, with Winnipeg having the highest surplus and Ottawa having the highest deficit on a per capita basis.

Figures 3 and 4 — Capital expenditures
Toronto is in the middle of the pack on a per capita basis, but is the lowest when calculated as a percentage of the total expenditures, partly because of its capital maintenance deferral. Capital expenditures in proportion to total expenditures has been trending particularly low and stable for more mature cities such as Toronto, Winnipeg, Hamilton & Vancouver, but larger for cities that experience the highest level of population growth, e.g. Calgary & Peel.

Figure 5 — Local taxable assessment growth
Toronto is the lowest at 0.6 per cent, with Edmonton being the highest at 9.3 per cent, followed by Winnipeg (6.6 per cent), Calgary (6.5 per cent), etc.

Figure 6 — Total property taxes and user fees per capita
Toronto is the highest at $2,425, followed by Ottawa ($2,187) & Vancouver ($1,953), etc.

Figures 7 to 10 — Net debt and debt burden
In absolute dollar terms, Toronto has the highest net tax-supported debt ($1.1 billion), but it is in the middle of the pack when considered on a per capita basis and as a per cent of taxable assessment. When all long-term liabilities (tax-supported debt, contingent liabilities and other long-term commitments) are compared on a per capita basis, Toronto is also in the middle of the pack.

Figure 11 — Liquid assets / current liabilities
Toronto is the lowest, but still greater than 1, meaning all municipalities have strong liquidity and investment positions, and are in a comfortable position to repay short-term liabilities. Peel has the highest short-term liquidity with a ratio of 11.9:1.

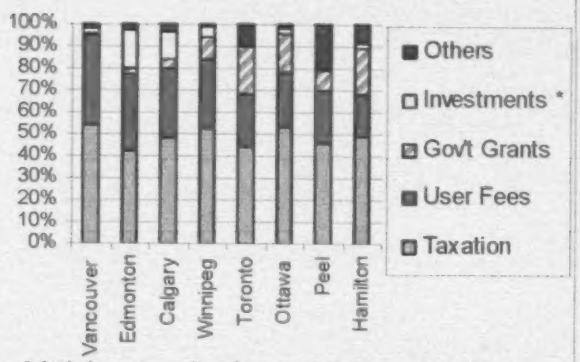
Figure 12 — Unemployment rate
Toronto's rate was the second highest at 7.7 per cent, trailing Vancouver's rate at 7.8 per cent.

Select Financial and Economic Indicators

Source: DBRS 2003 Canadian Municipal Government (published in Feb 2004 based on 2002 data)

Fig. 1

Operating Revenues by Function



* Includes net earnings from municipal energy subsidiaries

Fig. 2

Surplus/(deficit) after Capital Exp. per Capita

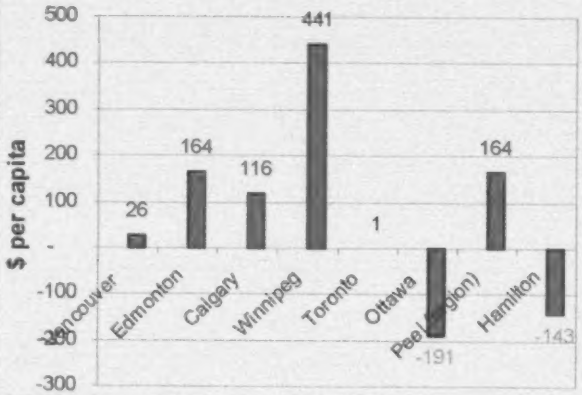


Fig. 3

Capital Expenditures per Capita

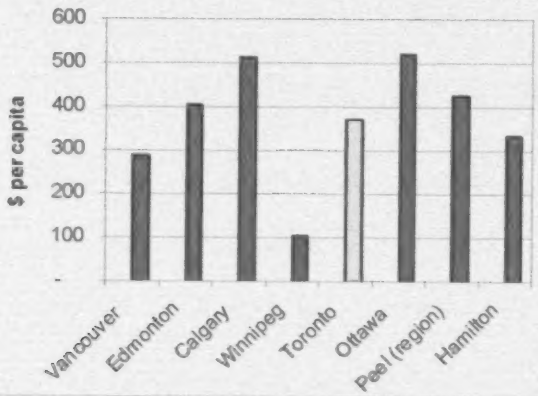


Fig. 4

Capital Expenditures as a % of Total Expenditures

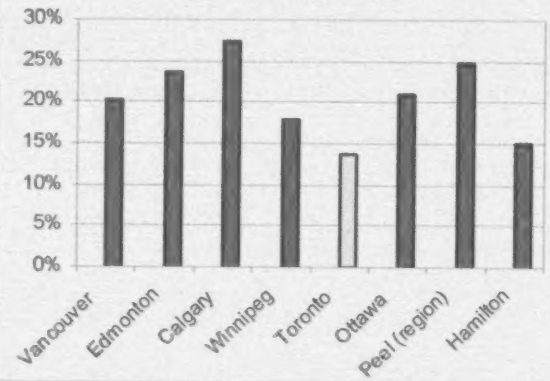


Fig. 5

Local Taxable Assessment Growth

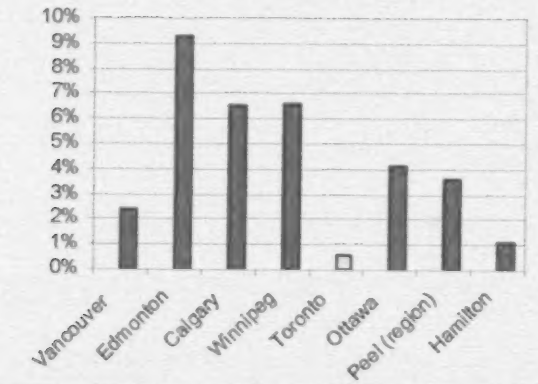


Fig. 6

Total Property Taxes & User Fees per Capita

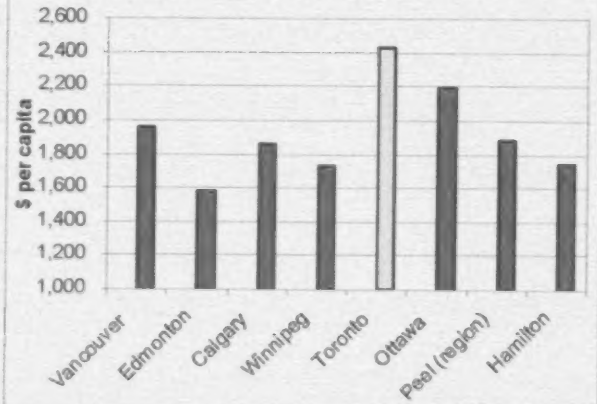


Fig. 7 Net Tax-Supported Debt

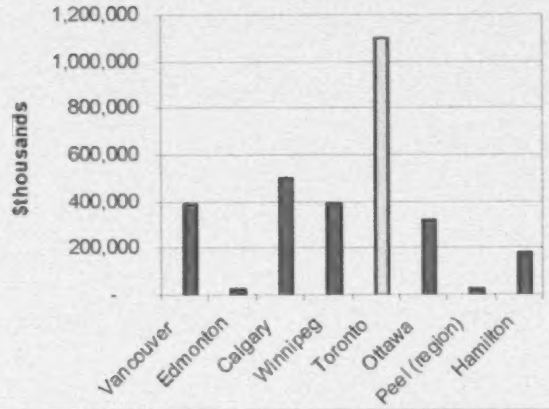


Fig. 8 Net Tax-Supported Debt per Capita

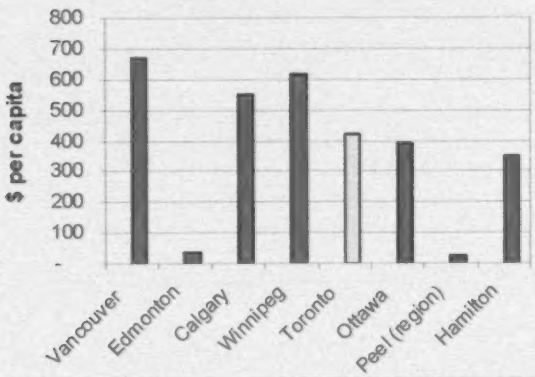


Fig. 9 Net Tax-Supported Debt as a % of Taxable Assessment

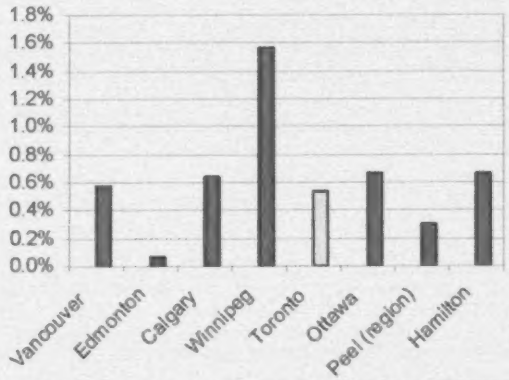


Fig. 10 Tax-Supported Debt, Cont. Liab, & LT Comm. Per Capita

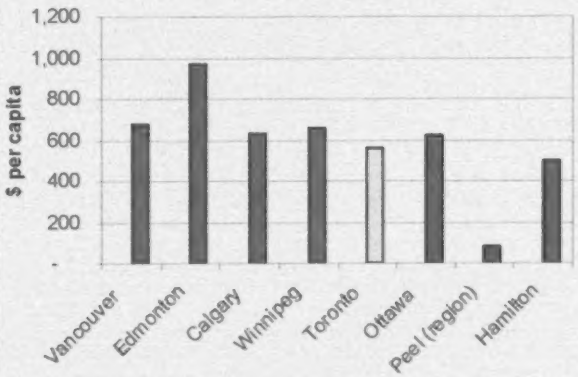


Fig. 11 Liquid Assets / Current Liabilities

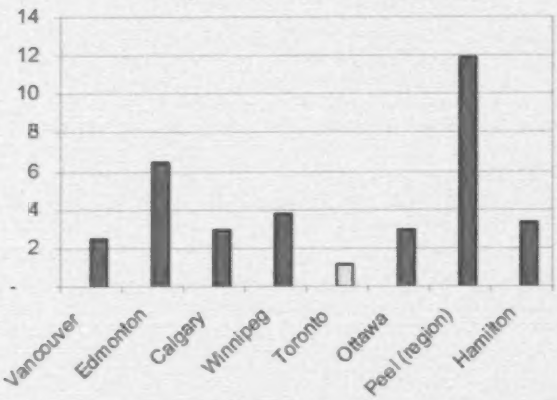
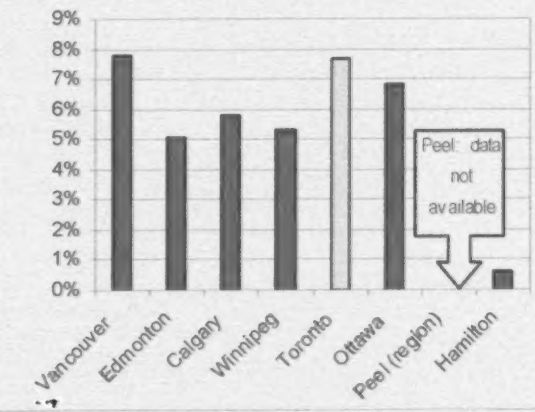


Fig. 12 Unemployment Rate



B. Standard & Poor's (S&P)

In April 2004, Standard & Poor's (S&P) issued its Industry Report Card for Canadian Municipalities, reviewing the performances of 35 Canadian cities in 2003. The general theme is similar to that of the DBRS report.

Key points:

(i) Near-record economic performance, declining debt levels and generally strong operating performances

(ii) Improved reporting standards under the Public Sector Accounting Board, with the inclusion in the balance sheet of retirement and post-employment benefits, landfill post-closure costs, and changing the treatment of development charges to a liability

(iii) A significant number of municipalities regularly post operating surpluses that exceed 20 per cent of operating revenues, which provides the necessary financial flexibility to fund capital programs, and cushion economic and financial shocks

(iv) Trending towards growing infrastructure deficiencies and declining liquidity levels

(v) Toronto's rating was AA/Stable (long-term debt) / A-1+ (short-term debt)
   1. Toronto's economy is the country's strongest and most diverse.
   2. Direct debt as a share of operating revenue was about 40 per cent at the end of 2002, placing Toronto in an intermediate position with international peers
   3. Debt has been rising
   4. Liquidity levels are healthy
   5. Recent operating performances (surpluses) have not been strong, averaging 8 per cent of operating revenues from 2000 to 2002

In summary, reviews prepared by both the DBRS and Standard & Poor's on Canadian / Ontario municipal governments in 2003 concluded that the City of Toronto's fiscal position was relatively quite strong. It has had near record economic performances since amalgamation, declining debt levels and generally strong operating performance. However, ongoing growth in spending, fuelled by labour and capital requirements, uncertainty regarding provincial and federal funding, and relatively high employee benefit liabilities will start cutting into the fiscal results in the next few years.

Toronto's credit rating for long-term debt is behind those for Peel, Edmonton, and Vancouver. This is mainly due to the fact that Toronto (and other Ontario municipalities) has a higher risk profile associated with exposure to economy-sensitive income-distributive programs. Businesses in Toronto face relatively higher business property taxes, which the credit rating agencies regards as a weakness. Toronto has the highest property taxes and user fees per capita compared to the other major cities in Canada, while percentage assessment growth is the lowest. In absolute dollar terms, Toronto has the highest net tax-supported debt, but when considered on a per capita basis it is in the middle of the pack. Toronto's liquidity and investment position is relatively lower than the other comparators but is still in a comfortable position to repay short-term liabilities.

On November 18, 2004, Standard & Poor's Ratings Services affirmed its 'AA' long-term issuer credit and senior unsecured debt ratings on the City of Toronto. The outlook is stable.

Impact of CICA Public Sector Accounting Board Rules on the City's Finances

Background

The Canadian Institute of Chartered Accountants (CICA) is the legislated accounting standard setter for the private sector in Canada. Accounting standards specify how transactions and other events are to be recognized, measured, presented and disclosed in the financial statements. In 1982, the CICA created the Public Sector Accounting Board (PSAB) to develop accounting standards for governments in Canada. Prior to the creation of PSAB, there were no recognized accounting standards for governments in Canada. The Federal and Provincial governments set their own accounting rules. The provinces in turn set the accounting rules for municipalities.

During the 1980's, government deficits and debt were rising, putting pressure on the governments of the day to be creative with their public accounts. Country wide, Auditor Generals were urging their governments to adopt PSAB's independently set accounting standards to improve the public's confidence in the financial accounts of the government. Today, the Federal government and most provincial governments comply with PSAB's accounting standards. Five provincial governments, including Ontario, have passed legislation requiring local governments to comply with PSAB standards.

How standards are set

PSAB is governed by a twelve-member board drawn from federal, provincial and local government accountants, auditor generals, public auditors, budget officials and academics. PSAB also employs a full time staff of researchers and analysts. In addition, PSAB has a network of associates from all these fields who provide feedback at each major stage in the development of new standards.

The agenda for standards preparation and update is determined by the Board. Topics for consideration can come from PSAB staff who monitor international developments, PSAB associates and the Board member themselves. PSAB regularly survey their associates for topics that require PSAB's attention.

PSAB follows the following due process in standard development or significant standard change:

- Constituent survey
- Project identification
- Research
- Project proposal
- Statement of principles
- Associate review and feedback
- Exposure draft

- Associate review and feedback
- Public review and feed back
- Standard issued

For significant and complex projects, once a project proceeds past the proposal stage, a special task force is formed to carry the project out. The task force is usually made up of one PSAB staff member and five to seven "constituents". Depending on the project, the constituents are drawn not only from government policy, accounting, audit and budget professionals but they can be drawn from non-accounting professions as well (e.g. engineers). Care is taken to balance the task force based on the constituency that will be affected by the standard and on geography. Because of the extensive consultation built in to the process, it can take up two years or longer for PSAB to issue a new standard or significantly change an old one.

Impact of PSAB Standards on the City's financial statements

Most Ontario municipalities began recognizing PSAB standards in the late 1980's and early 1990's even though they were not required to until the passage of the new Municipal Act in 2001. Prior to PSAB, Ontario municipalities followed the "green book" issued by the Ministry of Municipal Affairs.

The green book set out some standards for the municipality's balance sheet, consolidated statement of operations and the statements for the operating, capital and reserve funds. The green book moved municipalities away from a cash basis accounting (recognizing expenses only when paid and revenues only when received) to a modified accrual basis of accounting (recognizing expenses when goods and services received and revenues when services are provided).

With the adoption of PSAB standards, the following major changes to government accounting statements occurred:

I. Reporting Entity:

The government must consolidate the financial results of all the entities that it controls on the same basis of accounting. In the past, a government could issue one financial statement that consisted only of its directly operated departments and could issue separate statements for each of its agencies, boards, commissions and corporations that it controlled. Since more attention was paid to the main government statement, it was tempting to offload debt and less desirable financial results to the ABCs. In the US, this temptation to offload debt to "Special Purpose Entities" led to the infamous Enron collapse.

Under the old rules, the financial results of the government could be further obscured by using different accounting standards for each entity. For example, both the TTC and Toronto Community Housing Corporation (TCHC) follow the CICA not-for-profit accounting standards that allow for the recording of fixed assets and depreciation expense. Under PSAB rules, local governments are not allowed to account for fixed assets and depreciate them. Upon consolidation, the financial results of the TTC and TCHC are converted to the local government basis of accounting.

The most significant impact of PSAB's reporting entity rules on the City is the consolidation of the TCHC which results in the disclosure of the TCHC's considerable mortgages but not the value of the buildings that secure them.

II. Debt Charges and Capital Leases:

Interest expense now includes interest earned by the debenture holder between the time of the last interest payment and the municipality's fiscal year end. In the past, interest expense was accounted for on a cash basis. This encouraged municipalities to issue most of their debt in the last six months of the year to avoid expensing any interest costs in the first year of debt issuance, regardless of whether this was the right time to issue debt from an interest rate standpoint.

Principal repayment of debt is now disclosed separately as a financing charge as opposed to being hidden in the expenditure by function on the statement of operations.

Long-term leases that essentially confer all of the benefits of the asset to the municipality are now classified as long-term debt. In the past governments could move debt off their books by entering into long-term leases for physical assets. This often hid the true nature of these agreements. Under PSAB rules, if the terms of the lease are such that the asset is essentially used up or title transfers at the end of the lease, the lease is considered a capital lease and the obligation is treated the same as long-term debt.

III. Post Employment Employee Benefit Liabilities:

In the past governments were not required to expense or disclose the often significant obligations they had entered into with their current and retired employees. One of the most common employee benefit obligations was a vested sick leave plan. Under these plans, employees could accumulate unused sick days every year of their employment and were entitled to receive payment of the accumulated amount upon their resignation, termination or retirement. Over time this obligation and similar post-employment obligations became very significant.

PSAB now requires that these obligations be expensed at the time they are earned and that the accumulated earned obligation be shown as long term debt. In the City's case, this is now the largest long-term debt of the City.

Note *PSAB does not require the liability to be funded.* PSAB does not prescribe how governments raise and spend public funds. That is the government's responsibility. However, by disclosing the extent of the employee benefit obligation and whether it is growing or declining, many governments are taking steps to fund the liability or contain the future growth of the liability by changing benefit plans or both.

IV. Landfill Site Liabilities:

Another obligation that governments can no longer avoid recognizing is the eventual costs in closing landfill sites and their perpetual care thereafter. Due to the environmental legislation that has been put in place in the last decades, this cost can be substantial and unavoidable. PSAB requires that the eventual closure costs of open landfill sites be recognized as liabilities and be expensed over the remaining life of the site. Post closure costs of closed landfill sites must also be recognized as liabilities and be expensed over the expected period of monitoring and rehabilitation.

What's on the Horizon

The most significant future accounting change currently under study by PSAB is accounting for capital assets at the local level of government. Under the present rules, local governments essentially expense capital assets such as infrastructure, buildings and vehicles in the year they are purchased or built. The value of these assets is not carried on the local government's books.

The private sector and not-for-profit sector both capitalize these assets on their balance sheets and depreciate (expense) them over their useful life. The Federal and Provincial levels of governments now do the same. This standard has yet to be extended to local governments. In the late 1990's a task force was struck to extend the standard to local government, but the project was terminated due to the lack of strong support to PSAB associates and some members of the PSAB Board. Instead, the Board launched a significant research study in 2000 to study the matter further. The research study was published in 2002.

In 2004, PSAB started a new task force to review the local government financial reporting model to determine whether or not it should be changed to account for capital assets. The task force is now at the Statement of Principles stage. It is expected that a new standard will not be ready until 2006 and if it is approved, it is expected that a transition period of two or three years will be granted to give local governments a reasonable time period to comply.

This would be a significant undertaking for the City as it would require an initial inventory and valuation of the City's capital assets. The possible implication of a new standard for capital asset accounting is that the City would be able to report the substantial value of its capital assets in the financial statements. This would put the City's debenture debt levels in a new perspective.

As well, if these assets are to be depreciated and expensed over their useful lives, a new perspective on the City's total expenses will also be revealed, as depreciation expense will push the local government's total reported expenses higher. However, it should be remembered *that PSAB will not prescribe how this expense should be funded.* Like the post employment benefit expense, depreciation is a non-cash expense and it will be up to the government as to whether the expense will be funded or not. However, by disclosing the depreciation expense and by disclosing the erosion of the local government's total assets if it is not

funded, it is expected that government decision making will be influenced by this new information. In Ontario, it may also impact on the requirement that municipalities not budget a deficit.

There have been growing independent verifications of the need for Enhanced and Sustained Financial Support from other orders of government

Toronto is not recognized as a government by the Constitution. Cities are "creatures of the province" and cannot act unless granted the authority to do so by the provincial government. The same legislation applies to all municipalities regardless of the city's size or needs. Currently Toronto does not have the legislative authority to, for example, levy taxes other than property taxes. Many other cities throughout Ontario and across Canada face similar challenges. Over the last few years, there has been a groundswell of support from independent organizations for the need for increased financial support for municipalities. This was led by the Toronto Star which at the beginning of 2002, launched a year-long campaign for a "new deal" — a deal which would give more money, more power and more recognition to Canada's urban centres. The following is a list of other organizations joining the voices and their key messages:

TD Economics
"A Choice between Investing in Canada's Cities or Disinvesting in Canada's Future" – April 2002
"The Greater Toronto Area: Canada's Primary Economic Locomotive in Need of Repairs" – May 2002

- Property tax is not the right tool
- U.S. cities have greater taxing powers, and broader use of tax incentives
- Solutions:
  - Local governments need property tax reform
  - Other orders of governments to:
    - grant "Natural Person Power"
    - provide stable & reliable funds
    - exempt municipalities from PST & GST
    - reduce gasoline tax rate & allow municipalities to use tax room

Toronto Board of Trade – "Strong City: Strong Nation" June 2002

- Confirmation of the decline in Toronto validated the need for change
- Potential solutions:
  - 5-year interim funding agreement between the City and other orders of governments
  - a new public finance model for the city
  - a new governance structure

United Way of Toronto – "A Decade of Decline" March 2002

- Evidence of increased poverty and income polarization despite economic recovery
- Toronto's liveability is at risk
- A call to action to address the growing disparities in Toronto
- The call for a new deal is essential to addressing the problem

Prime Minister's Caucus Task Force on Urban Issues
Interim report "Canada's Urban Strategy: A vision for the 21st Century" May 2002
Final report "Canada's Urban Strategy: A Blueprint for Action" November 2002

- Cities in crisis: Urban regions cannot compete - have insufficient revenue and older infrastructure
- Proposed Solutions:
  - National Affordable Housing Program that will provide an effective and more sustainable means of increasing the supply of affordable housing
  - National Sustainable Infrastructure Program that will build on current programs to provide stable, reliable funding
  - National Transit/Transportation Program as an area of long-term national investment

C5 Mayors (of five of Canada's hub cities: Vancouver, Winnipeg, Toronto, Montreal and Calgary) – June 2002

The C5 Mayors and their delegations agreed that:

- they endorse the findings of the reports which compel Canada to change the ways in which its largest urban regions are empowered and financed;
- the time has come for action by all orders of government to address the looming crisis of urban Canada;
- strategies must be developed by the Provincial and Federal governments in consultation with municipal elected officials, and in partnership with leaders from other sectors;
- the implementation of these actions shall be entrusted to municipal governments, the bodies most able to efficiently and effectively meet the needs of citizens.

Federation of Canadian Municipalities: Big City Mayors Caucus – May 2002

- The Mayors of Canada's largest cities released a Model Framework for a City Charter indicating that Canadian cities need greater autonomy and access to more flexible revenue streams to address the complex challenges facing them in the 21st century.
- The Model Charter clarifies municipal responsibilities, while providing cities with more autonomy and access to more flexible revenue streams.

Toronto City Council adopted the recommendation that Council undertake the development of a modern flexible Charter for Toronto, that reflects the City's unique characteristics and needs, and empowers the City's elected government to meet the needs of the City.

Federation of Canadian Municipalities
A New Deal for Cities: On the Road to Fiscal Sustainability – May 2002

The Federal Government is urged to:

- Commit to a permanent infrastructure program
- Extend the National Affordable Housing Program
- Support a multi-modal integrated National Transportation System with a focus on urban transit
- Increase the GST rebate to the municipal sector
- Allow municipal governments to share tax revenues levied by other governments
- Establish a National Municipal Finance Corporation to finance municipal infrastructure.

Association of Municipalities in Ontario
Three-Point Action Plan – August 2002

- Take full advantage of our window of opportunity. The time is right for a new deal for municipalities.
- Make 2003 the "Municipal Budget" Year for Provincial and Federal Budgets. The 2003 Provincial and Federal Budgets must commit the funds for roads, bridges, water, sewage treatment, social services and affordable housing.
- Acquire new revenue sources. AMO will work hard to convince the Province of the merits of further sources of revenue because they are needed in addition to the announced tax-incentive zones, opportunity bonds and the Ontario Municipal Economic Infrastructure Financing Authority

Organization for Economic Co-operation and Development (OECD) — "Territorial Review of Canada" September 2002

- Compared to other countries and especially other OECD countries, Canadian municipal governments have relatively weak powers and limited resources.
- Southern Ontario is the only area in Canada without a formal national strategy for economic growth.

The report affirms City of Toronto positions on a wide range of issues, including:

- The importance of establishing a 'new relationship' with the Federal and Provincial governments.
- Providing cities with access to tax revenues in addition to the property tax.
- Canadian cities' need for alternative, sustainable sources of revenue and policy levers.
- The need to establish institutional mechanisms that will enable large urban centres to deal more directly with the federal government on matters of mutual interest, such as urban infrastructure, housing and immigration.

Ontario's Task Force on Competitiveness, Productivity and Economic Progress 1st Annual Report — "Closing the Prosperity Gap" November 2002

- Healthy and vibrant cities are essential if Canada is to build a successful economy
- Ontario cities rank reasonably well when compared to similarly sized U.S. cities in relation to 'the creative class' — the determinant of a region's economic growth and prosperity. Toronto, for example, ranks fourth behind Los Angeles, New York and Vancouver.
- Cities are having difficulty maintaining the quality of life that retains and attracts talented and creative people, and investment that follows such people, and must be a priority for Ontario and federal governments.
- There is an urgent need to find ways to improve the financial strength and capabilities of Ontario cities, which is a key element in closing the "prosperity gap" with leading U.S. cities.

Conference Board of Canada / TD Financial Group — "Addressing the Challenge, Deliberations at the TD Forum on Canada's Standard of Living" November 2002

- National economic success depends on making cities that are engines of growth
- Cities need the autonomy to develop policies to meet their individual challenge. One-size-fits-all national or provincial programs do not address the diversity of cities.
- Cities must have revenue sources sufficient to meet their responsibilities. These revenue sources need to be dynamic; they must grow with the economy.
- Cities must have the fiscal stability necessary for long-term planning. They must not be subject to the arbitrary downloading of responsibilities, nor to fund cuts initiated by other levels of government.

Cameron Strategy Inc. & Probe Research Inc. – Comprehensive study of the residents of Canada's seven major cities (February 2003)

- Federal Government should provide a greater share of tax dollars to urban municipalities.
- 2/3rds of urban Canadians called or increased federal spending for cities.
- 57 per cent want the Mayors of major Canadian cities to be formally included in the federal budget planning process.

TD Economics Discussion Paper
Affordable Housing in Canada: In Search of a New Paradigm (June 17, 2003)

- Give municipalities a wiser array of revenue sources – notably, the flexibility to levy their own excise taxes
- Upload responsibility for social housing from municipalities back up to the provincial level in Ontario

National Survey conducted by COMPAS for FCM (May 2004)

- Canadian public (3:1 margin) believes cities and municipalities should increase revenues rather than reduce services.
- 77 per cent believe revenues should be drawn from other orders of government rather than increasing municipal user fees (8 per cent) or higher property taxes (4 per cent).
- 80 per cent feel cities and municipalities should participate in federal-provincial discussions of national policies.

Enid Slack Consulting Inc. for the Hub City Mayors – "Revenue Sharing Options for Canada's Hub Cities" September 2004

- Access to revenues from a mix of taxes would give Canada's hub cities more flexibility to respond to changing expenditure needs.
- As part of the tax mix, the hub cities need revenues that allow them to benefit from economic growth.
- The property tax is "inelastic" and is slow to respond to economic growth.

Other orders of government have started to listen to the growing voices and taken some actions

In the last couples of years the Provincial and Federal Governments have made announcements for funding and introduced funding frameworks that may help the City.

Federal Government and Province of Ontario:

- Gas Tax

  In October 2004 the Provincial government announced its commitment to invest two cents a litre of the provincial gas tax in public transit. Over the next three years, the Province will invest more than $680 million in 78 transit systems, providing additional revenue to 105 municipalities across Ontario.

  As of October 1, the Ontario government has dedicated one cent a litre of provincial gas tax funding for public transit. This will increase to 1.5 cents in 2005, and the full two cents in 2006. The City of Toronto is eligible for $81.3 million in the first year of the program (October 2004 – September 2005). Once fully implemented (October 2006/07) it is estimated the City will be eligible to receive $163 million in gas tax revenues.

  The Federal Government also indicated in its October 2004 Speech from the Throne that, through the *New Deal for Canada's Cities and Communities*, and working with the provinces and territories, it would

make available, for the benefit of municipalities, a portion of the federal gas tax, growing over the next five years. These funds will enable municipalities to make long-term financial commitments needed to help contain urban sprawl and to invest in new sustainable infrastructure projects in areas like transit, roads, clean water and sewers.

It is anticipated the 2005/06 Federal Budget will include a commitment to share a portion of federal gas tax to fund municipal infrastructure.

- TTC Funding

  In March of 2004 the Governments of Canada, Ontario and the City of Toronto announced a $1.05 billion funding package for the TTC that will average $70 million per year from each partner, beginning in 2004 through 2009. A tri-partite agreement will be executed prior to yearend 2004.

  This commitment is in addition to Provincial funding provided under the Ontario Transit Vehicle Program (OTVP) projected to total $221million and the Transit Technology and Infrastructure Program (TTIP) of $15.4 million over the same 5-year period.

  As part of the $9 billion 10-year Ontario Transit Renewal Program announced in 2001, the TTC is eligible for transit capital funding provided the City receives support from Provincial and Federal partners and meets certain criteria. In 2002, the City would be entitled to $62.3 million. The City would also be eligible for $14 million in 2002 being a one-year commitment under the Golden Horseshoe Transit Investment Partnerships (GTIP) initiative.

- GO Transit funding

  In 2001 the Province announced that it would take back the responsibility for GO Transit, and 'wind down' the Greater Toronto Services Board (GTSB). This means that there is an annual saving to the City of $52 million in the Operating Budget, being the City's share of the GO Transit operating costs under the former GTSB cost-sharing formula. The Province further announced that it would support the "first three years of GO Transit's 10-Year Capital Plan to address on-going ridership and growth pressures". The Province confirmed that it would provide its one-third share of the cost, and encourage "innovative funding mechanisms to assist in the plan's implementation".

  In May of 2004 the Government of Canada, Ontario and GO Transit announced the signing of a contribution agreement to invest $1.05 billion into the GO Transit rail and bus system. Participating municipalities have been asked to contribute to the capital expansion program of GO Transit.

  The City is required to fund a share of the one-third municipal share of the GO expansion costs. This is projected to cost the City a total of $220 million over the next ten years. The Province has made this payment a condition of its transfer of its share of the Gas Tax.

The City is currently working with the Province and other stakeholders regarding its funding strategies.

1. Federal/Provincial Affordable Housing Program

   The December 2001 Federal Budget announced $680 million nationally for the Federal Affordable Housing Program over five years. Estimated funding available to Ontario municipalities are approximately $245 million, Toronto's portion (based on $25,000 per unit) are estimated at $60 million beginning 2003 through to 2005. The amount is estimated to create 500 new units per year over 5 years, while the City's target is to create 2,000 units per year.

2. Federal / Provincial Multilateral Agreement on Child Care

   In July of 2004 the Province of Ontario announced the flow through of $58.2 million ('04/'05) in federal child care funds to support existing child care spaces and to create new subsidized child care spaces. Toronto is to receive $15.4 million of this allocation.

   Funding under the Multilateral Agreement will grow to $137 million by 2007-2008. These funds are part of a five year $1.05 billion in Federal funds announced in March of 2003.

   The 2005/06 Federal budget may contain further investments in child care.

Province of Ontario:

- Ontario Strategic Infrastructure Financing Authority (OSIFA)

  The Province announced the creation of the Ontario Strategic Infrastructure Financing Authority in May 2004, as an innovative financing vehicle that can be used by the broader public sector to renew and build public infrastructure assets, to improve access to capital markets and make debt issuance more efficient. OSIFA will develop an implement an infrastructure renewal loan program that provides affordable financing to meet municipal, health, education and housing infrastructure programs. OSIFA will offer a new financial instrument called Infrastructure Renewal Bonds (IRBs) to institutional and individual investors, the proceeds of which will be used to fund OSIFA's infrastructure renewal loan program.

- New Municipal Act

  Ontario's *Municipal Act, 2001* came into force on January 1, 2003. The Act represented the first comprehensive review and a major revision of the original *Municipal Act* since its passage in 1849. The objective of the Act was to recognize Ontario municipalities as responsible, accountable governments and enable them to operate and undertake new activities within their *spheres of jurisdictions*, without having to seek time-consuming provincial legislative amendments.

  More specifically, the intent of the Act was to:

  – Provide the municipalities the *natural person powers*

- Provide broader authority within the ten spheres of jurisdiction (single-tier municipalities), subject to procedural requirements and other limitations existing in other statutes:
  - (i) Highways, including parking and traffic on highways,
  - (ii) Transportation systems, other than highways,
  - (iii) Waste management,
  - (iv) Public utilities,
  - (v) Culture, parks, recreation and heritage,
  - (vi) Drainage and flood control, except storm sewers,
  - (vii) Structures, including fences and signs,
  - (viii) Parking, except on highways,
  - (ix) Animals,
  - (x) Economic Development Services

- Allow municipalities to establish corporations for municipal purposes, subject to regulations,
- Allow municipalities to collect tolls for vehicles using their roads, subject to regulations,
- Allow municipalities to access a broader range of investment instruments, and broader borrowing opportunities/ vehicles including leasing,
- Require municipalities to adopt new accountability measures relating to user fees, licensing activities, the budget process and service delivery.

In June 2004, the Provincial Government of Ontario announced a new consultation process to review the *Municipal Act, 2001*.

- City of Toronto Act, 1997

Concurrently, a process has also begun to review the *City of Toronto Act, 1997*. In May 2004 the Province indicated that it no longer wanted to micro-manage municipal governments and that it intended to give them the power and flexibility they need to be a responsible and accountable government. A Joint Task Force comprising Provincial and City officials has been put in place to review and recommend changes to the City of Toronto Act, 1997 and other private (special) legislation pertaining to the City so as to provide Toronto with an enabling legislative framework commensurate with Toronto's responsibilities, size, and significance in Ontario.

Related objectives of this initiative are to:

- ⇨ Make the City more fiscally sustainable, autonomous and accountable
- ⇨ Improve Ontario's quality of life and competitiveness by equipping Toronto — Ontario's engine of economic growth — with the legislative tools it requires to thrice as a modern, global urban centre
- ⇨ Reduce red tape and improve the efficiency of the governments of Ontario and Toronto by eliminating duplicative, unnecessary and time-consuming measures that provide little public benefit.

The City of Toronto is actively engaged in discussions with the Province and other municipal organizations/ associations to improve the legislative provisions.

Federal Government

- Full Goods & Services Tax (GST) Rebate

  In February 2004 the Federal Government announced that municipalities would no longer be required to pay the Federal GST. Effectively the municipal GST rebate will increase from 57.14 per cent to 100 per cent. Therefore municipalities will continue to be charged for GST by their suppliers but the entire amount of the tax will be rebated by the government. With the rebate being increased to 100 per cent, the City will save an average of 3 per cent on most goods and services. This saving is estimated to be approximately $47 million for 2004 and an average of $51 million on an annual basis.

- Green Municipal Funds

  In 2000 the Federal Government introduced the Infrastructure Canada Program with a commitment of $2.65 billion over six years ($0.6 billion for provincial highways and $2.05 billion for infrastructure including water, sewer, transportation and housing). Two programs totalling $125 million were introduced which are complementary to the Infrastructure Canada Program — the Green Municipal Investment Fund and the Green Municipal Enabling Fund. (This has since been doubled to $250 million in the latest Federal Budget announced in December 2001.) The City has submitted applications through the FCM, and was awarded $0.3 million for four projects.

  Since 2000 the City, its agencies and its community partners have been awarded funding, in the form of low interest loans and grants, of $22M from FCM to support implementation of environmental initiatives. Toronto has supported additional submissions with FCM totalling $1.3M.

- Canada Strategic Infrastructure Fund & the Border Infrastructure Fund

  The Canada Strategic Infrastructure Fund and the Border Infrastructure Fund were also announced in the December 2001 Federal Budget, with a minimum federal commitment of $2 billion for the former and $600 million for the latter over five years. The Federal Government will pay up to 50 per cent of eligible costs for projects that may involve any combination of municipal, provincial and private partnerships. The City is currently in the process of reviewing the application criteria and co-ordinating the preparation of submissions.

3. The September 2002 Throne Speech mentioned the need for an urban strategy and called for a 10-year infrastructure initiative focussing on transportation and affordable housing.

It appears that other orders of government have started to listen to the growing voices for sustained new relationships and improved legislative framework for municipalities. The City needs long-term predictable and sustainable funding commitments to enable long-term planning and meet its future needs for services.

Section 3: Multi-Year Financial Forecast

Introduction

A multi-year financial forecast is an essential tool for long-term planning. The purpose of a multi-year forecast is to:

- project capital needs and impacts on debt and the operating budget,
- forecast operating needs, including asset and liability funding pressures,
- help develop a plan for the elimination of one-time revenues used in balancing previous years' budgets, and
- allow for the examination of alternative expenditure and revenue solutions.

This section summarizes the five-year financial forecast for the City of Toronto, as presented to the Ad Hoc Committee in December 2004 updated to include the 2005 Operating and Capital Budgets, and provides a discussion for closing the projected funding shortfall. Finance staff have made the best efforts to reflect the most current information/estimates available at the time of the approval of the 2005 Operating and Capital Budgets. Subsequent events, including the Federal and Provincial agreements on sharing gas taxes with the City, and the 2006 Budget preparation, were in progress at the time of the writing of this report, and might therefore impact the conclusions to be derived from the five-year forecasts.

Assumptions

The following key assumptions were made in the five-year financial forecast model:

1. City programs maintain their current service levels, with no provisions for new initiatives, unmet needs or growth.

2. There are inflationary increases in both revenues and expenditures, based on the Consumer Price Index taken from Conference Board of Canada's outlook for the Toronto region.

3. Capital expenditures are constrained to limit new debt to a sustainable level, estimated at $300 million per year.

4. Funding is phased in over the forecast period to sustain assets and manage liabilities.
   - Capital from Current contributions increase by $10 million annually beginning 2007 as part of the City's 2004 Capital Financing Strategy
   - An annual average of $48 million is allocated to begin to fund liabilities over the five-year period, including reserves and reserve funds for Employee Benefits, Social Assistance Stabilization, Landfill Perpetual Care, Insurance, Vehicle and Equipment, and Winter Control Stabilization.

Capital Forecasts

Capital forecasts are prepared to allow proper planning for capital financing. Like all Ontario municipalities, the City can borrow money only for capital purposes. The City regularly reviews funding sources that are sustainable and determines the requirements for new debt. These represent a basket of sources, such as Capital from Current, reserves and reserve funds, development charges, on-going revenues from Toronto Hydro, stable Federal and Provincial subsidies and baseline debt.

The baseline debt is the replacement of the average annual maturities of previously issued debt, currently estimated at $135 million. As a portion of the outstanding debt matures each year, it creates room for more debt without increasing debt service costs. The amount of debt financing in excess of the baseline debt is "new debt".

Unconstrained Capital Forecast:

An "unconstrained" capital forecast was prepared based on best estimates by programs, agencies, boards and commissions of their capital needs. These needs comprise of estimates for clearing capital maintenance backlog and meeting growth requirements.

On the revenue side, assumptions were made with respect to Provincial and Federal Gas Tax revenues announced at the time of the approval of the 2005 City Budget. The forecast also included the best estimates for announced or committed funding through various programs.

Capital Forecast - Unconstrained
Based on 2005 Approved Capital Budget

$Millions

	2005	2006	2007	2008	2009	Annual Average
Unconstrained Expenditures (a)	1,033	1,761	1,628	1,744	1,838	1,601
Provincial Revenues (b)	83	192	249	207	195	185
Federal Revenues (c)	54	159	215	240	165	167
Internal Funding (d)	246	158	147	154	114	164
Capital from Current (e)	124	124	134	144	154	136
Baseline Debt	135	135	135	135	135	135
Shortfall / New Debt	**392**	**993**	**748**	**673**	**568**	**675**

(a) 2005 Council Approved Capital Budget including TTC & GO Transit, & 2006-2009 Capital Budget Estimate for Tax Supported Programs with additional estimated needs in excess of the constrained budget for major programs.

(b) Provincial revenues include gas tax, program funding from Canada Strategic Infrastructure Fund (CSIF), Ontario Transit Vehicle Program (OVTP), and Golden Horseshoe Transit Investment Partnership (GTIP)

(c) Federal revenues include preliminary Gas Tax & funding under the Tripartite Agreement.

(d) Internal funding includes Program funding, TTC internal, Reserves, Development Charges, & revenues from Toronto Hydro.

(e) Capital from Current is the annual direct contributions to the capital budget from the operating budget to reduce annual debt requirements.

Despite offsets from Federal and Provincial revenues and an annual $10 million increase in Capital from Current contributions, the shortfall, which would be funded by new debt, would average $675 million over the next five years. This would escalate the City's net debt from $1.6 billion to almost $4 billion by the end of 2009, which is clearly unaffordable.

Constrained Capital Forecast:

A more realistic approach is to constrain the City's capital requirements to a level requiring approximately $300 million of new debt annually, as tabulated below.

Capital Forecast - Constrained
Based on 2005 Approved Capital Budget

$Millions

	2005	2006	2007	2008	2009	Annual Average
Capital Estimates (Submitted)	1,180	1,624	1,513	1,357	1,214	1,378
Constrained Expenditures (a)	1,033	1,068	1,180	1,179	1,063	1,105
Provincial Revenues (b)	83	192	249	207	195	185
Federal Revenues (c)	54	159	215	240	165	167
Internal Funding (d)	246	158	147	154	114	164
Capital from Current (e)	124	124	134	144	154	136
Baseline Debt	135	135	135	135	135	135
Shortfall / New Debt	**392**	**300**	**300**	**300**	**300**	**318**

(a) 2005 Council Approved Capital Budget including TTC & GO Transit, & 2006-2009 Capital Budget Estimate for Tax Supported Programs (constrained).

(b) Provincial revenues include gas tax, program funding from Canada Strategic Infrastructure Fund (CSIF), Ontario Transit Vehicle Program (OVTP), and Golden Horseshoe Transit Investment Partnership (GTIP).

(c) Federal revenues include preliminary Gas Tax & funding under the Tripartite Agreement

(d) Internal funding includes Program funding, TTC internal, Reserves, Development Charges, & revenues from Toronto Hydro.

(e) Capital from Current is the annual direct contributions to the capital budget from the operating budget to reduce annual debt requirements.

Even at this level, the City would need to issue a high level of debt, averaging $318 million annually over the next five years. In this constrained scenario, the City's net debt would increase from $1.6 billion to almost $2.8 billion by the end of 2009. The historical and projected net debt scenarios for constrained and unconstrained capital expenditures are illustrated in the upper chart on p. 45.

Operating Forecast

On the operating side, financial pressures arise from:

- salary cost increases due to contract settlements and others such as pay equity and harmonization
- inflationary increases in non-salary costs, such as utilities and supplies
- capital financing costs / debt service costs
- replacement of one-time/non-recurring revenues used in balancing prior year budgets with on-going revenues. Non-recurring revenues included proceeds from Toronto Hydro (interests, dividends and asset sale proceeds), deferral of Provincial loan repayment, withdrawal from reserve funds, prior year operating surplus, and special Provincial funding.
- Provincial capping of cost-shared programs, including Social Services (Ontario Disability Support Program, Ontario Drug Benefits, and the cost of administration of Ontario Works), Shelter Per Diems, and Emergency Medical Services
- asset and liability funding to stabilize the financial condition of the City and preserve the balance sheet as a minimum. This includes increases in Capital from Current contributions, contributions to reserve funds for Employee Benefits, Insurance, and other stabilization reserve funds. It not only provides for prudent financial management, but also helps the City's income re-distributive programs to weather any potential financial risks due to extraneous factors or economic downturns.

In addition to the assumptions mentioned in the preceding subsection, the operating forecast is based on the following premises:

- The capital program is constrained to minimize the impact on the operating budget in the form of debt charges.
- One-time/non-recurring revenues used in balancing previous operating budgets are phased out over the forecast period (or less time) to smooth out the impact on any single year.
- The City will increase property taxes (residential and non-residential) and user fees at the rate of inflation. Property tax increases include assessment growth estimated at 0.5% of the annual tax levy, and may include different mixes of residential and non-residential tax rate increases.
- Asset and liability funding includes preferred increases in funding to Capital from Current, Employee Benefits Reserve Fund, Insurance Reserve Fund and several stabilization funds as per previously established City policies.

Operating Forecast

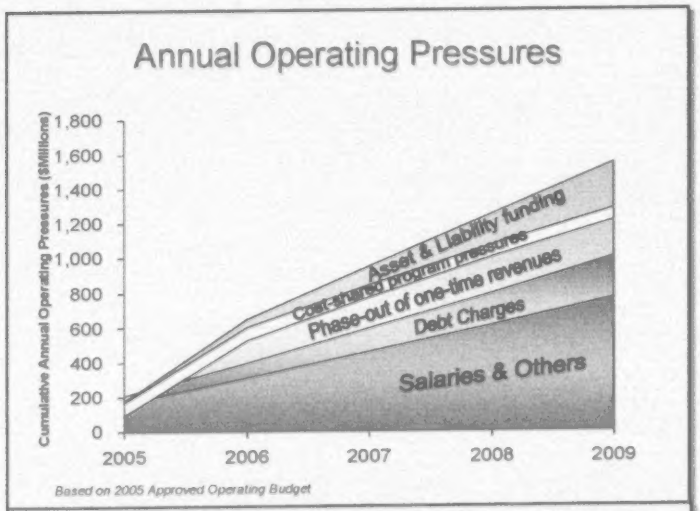
Annual Operating Pressures
$Millions

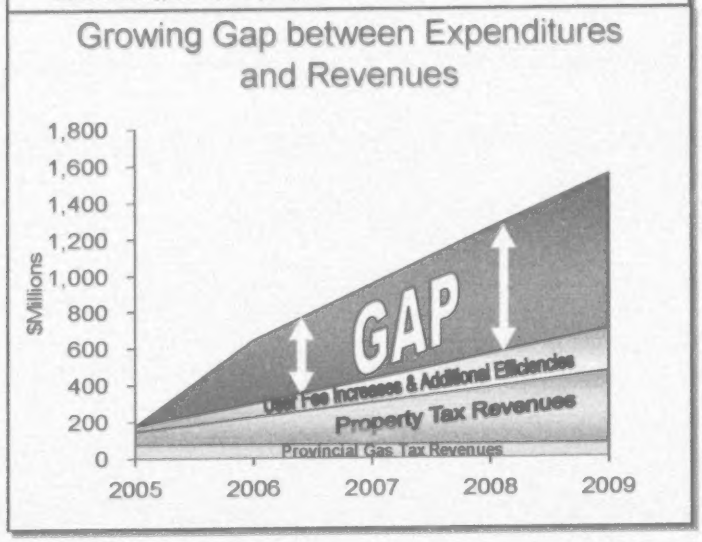
	2005	2006	2007	2008	2009	Annual Average
Base Pressures:						
Salaries & Other	161	146	149	153	157	153
Capital Impact - Debt Charges	45	44	49	46	52	47
Base Annual Pressures	**205**	**190**	**198**	**199**	**209**	**200**
Additional Annual Pressures:						
Phase-out of one-time Revenues	(112)	239	49	34	0	42
Provincial Cost-Shared Programs Shortfalls	72	0	0	0	0	14
Assets & Liabilities Funding	8	41	56	71	87	54
Additional Annual Pressures	(2)	280	105	105	87	110
Total Annual Pressures	**174**	**470**	**303**	**304**	**296**	**310**
Offsets:						
Provincial Gas Tax Revenues	(71)	0	0	0	0	(14)
Property Tax Increases	(75)	(78)	(79)	(81)	(82)	(79)
User Fees Increases & Additional Efficiencies	(28)	(50)	(51)	(52)	(53)	(47)
Total Offsets	(174)	(128)	(130)	(133)	(135)	(140)
Shortfall between Annual Requirements and Offsets = Gap	**(0)**	**342**	**173**	**171**	**160**	**170**

As shown in the above table, the City is faced with an average base annual pressure of $200 million from salary and other inflationary costs, as well as debt charges. Together with pressures created by one-time revenues, shortfalls in cost-shared programs, and preferred asset and liability funding, estimated at an additional total of $110 million annually, the total average annual pressures is estimated at $310 million.

On the revenue side, there are new revenues from Provincial Gas Tax transfers as mentioned earlier. Assuming inflationary increases in property taxes and user fees, and additional efficiencies, there is an estimated total of $140 million in overall offsets annually. This leads to a shortfall between the annual funding requirements and the offsets from revenue increases and additional efficiencies, or "Gap", which is in the order of $170 million annually on an average basis.

Displayed in a graphical form, the components making up the cumulative operating pressures and the offsets are as follows:





The 2005 budget pressure (Gap) was closed through:

- user fees increases and additional efficiencies,
- applying the increase in revenues from Toronto Hydro to Operating,
- applying the full Provincial Gas Tax revenues to Operating,
- special one-time Provincial funding,
- asset sales, including selling a piece of property to the Province in lieu of a debt payment, and selling City-owned power poles to Toronto Hydro,
- reserve draw, and
- property tax increases (residential 3%, commercial/industrial 1.5%).

Options to close the Gap

There are various options available to the City, subject to limitations to varying degrees, which may help to close the gap:

1. Further on-going fiscal restraint and efficiencies

   The City continues to be vigilant in its operations to continuously identify and implement efficiencies and productivity improvements. However, continual fiscal restraint over the past decade has reduced or eliminated much of the City's financial flexibility. As such, there is only limited potential for substantial additional savings without major service dislocation. In addition, the City is under constant demand to address requirements for new initiatives, unmet service demands or growth as part of its city building initiatives.

2. Further constraints on capital expenditures, e.g. capital maintenance deferral

   This may result in short-term savings, but will lead to further deterioration of infrastructure and potentially higher costs when the asset needs to be replaced rather than rehabilitated.

3. Above inflationary increases in property taxes and user fees

   The City's business taxes are already higher than those in the rest of the GTA, its immediate competitors. This limits the City's ability to offset fiscal pressures through extraordinary property tax increases on businesses. The City has embarked on extensive public and stakeholder consultations intended to improve its business climate, including long-term property tax policies.

   As mentioned earlier, the City has a high proportion of low income residents (including lone parents, seniors and children). Increasing residential property taxes and user fees above inflationary levels may increase financial hardship and render certain City programs inaccessible to these vulnerable groups.

4. Elimination of on-going shortfalls arising from the Provincial capping of cost-shared programs

   The City has and will continue to urge the Province to fully fund its share of the cost-shared programs. The capping shortfall has grown to over $72 million in 2005.

5. Other new revenue sources or transfer of service responsibilities to the Province

   As mentioned in the previous section, both the Provincial and Federal Government have started sharing their gas taxes with municipalities. However, the new funding will not fully address the City's funding needs. Closing the $170 million average annual gap only stabilizes the current financial condition, but a lot more resources are required to meet the demands for unmet needs, new initiatives, and growth.

For income distributive programs/services, the City needs to have better access to other revenue sources, such as income tax or sales tax that grow with the economy. Another potential solution is for these programs/services to be transferred to the Province so that there is a better match of funding responsibilities with the City's fiscal capacity.

Conference Board of Canada Study "Measuring Toronto's Fiscal Capacity"

In May 2005 The Conference Board of Canada released a report titled "Measuring Toronto's Fiscal Capacity: An Executive Summary" for the City of Toronto.

The study measured the fiscal capacity of the Toronto municipal government from 2005 to 2025. It showed that, although the Provincial and Federal Governments have begun to respond to Toronto's fiscal issues, committed funding sources are not sufficient to sustain adequate service levels and begin closing the large gap in required infrastructure spending. The Conference Board estimated that the combined operating and capital annual funding shortfall is projected to reach $1.1 billion in 2006, and would dramatically worsen unless the City generated significant revenue growth, or from a new sharing of tax revenues, including income taxes and/or consumption taxes (PST/GST).

The Conference Board's estimate is higher than the annual funding requirements/gap described in the preceding paragraphs. While it combined operating and capital estimates into one number, there are other reasons for the differences in figures, including but not limited to the following:

- The Conference Board assumed that the City would launch an infrastructure program in 2006, spending $360 million per year until 2025, resulting in the elimination of the City's infrastructure gap, estimated at $7.2 billion. The City would be able to raise all of the debt it needed to finance the capital shortfall. However, the previous discussion assumed a constrained capital program, limiting new debt to $300 million per year, to restrict its operating impact and to maintain the City's competitiveness.

- The Conference Board did not take into account the current legislative restrictions on non-residential property taxes, and assumed an average annual growth rate in these taxes of 4.3%, which is clearly beyond inflationary increases.

- The Conference Board, in its forecast model, allowed the local government to run an operating deficit, while in reality municipal governments are not allowed to do so under Provincial legislation.

Conference Board and City are arriving at the same conclusion

Despite these differences, the Conference Board and the City have both come to the same general conclusion: The City is in need of a new fiscal arrangement – whether through new revenue sharing or a reduction in financial responsibilities, or a combination thereof – to become fiscally sustainable. Without a reduced mandate or significant service offloading, Toronto requires a portion of revenues collected from the GST/PST, or income taxes, or both. Given access to these new sources of revenue would set the City on a secure path.

Section 4: The Fiscal Plan – Financial Issues, Preferred Outcomes and Recommendations

As discussed in the Introduction section, a good financial plan should ensure the balance of fiscal sustainability. In the case of a municipal government, a delicate balance should be struck amongst three key components, as in the case of a three-legged stool where the tipping of any one leg would affect the stability of the whole structure. The three key components are:

- Expenditures
- Revenues
- Assets and Liabilities

The stability of the corporation relies on the balance of the above three components — changing one component will change one or more of the other two components. For example, the deterioration of physical infrastructure (an asset) will increase maintenance/rehabilitation costs (expenditures); a large year-end expenditure over-budget, after all internal and inter-departmental offsets have been sought, will likely cause a draw-down of an appropriate discretionary reserve or reserve fund (asset/liability) if City Council decides so.

The financial issues which the City currently faces can broadly be grouped into eight issues, which in turn can be grouped under the three major categories – Expenditures, Revenues and Assets and Liabilities, as summarised below:

Summary of Financial Issues:

Expenditures:

1. The City of Toronto has a higher cost structure than other municipal governments in the rest of GTA, e.g. Police, transit, social assistance, social housing, and debt service costs.

2. Demands for growth as laid out in the Official Plan or other Sectoral and program plans are not adequately funded.

3. There is variability in certain program expenditures from year to year.

Revenues:

4. Business taxes are not competitive.

5. The City lacks adequate revenue sources to fund its municipal responsibilities, including income distributive programs.

6. Improper funding of Provincial cost-shared programs has resulted in significant financial pressures for the City:
   - Capping of Provincial share
   - Capping of GTA pooling revenues
   - Social service costs / risk exposure.

Assets and Liabilities:

7. City's investment in its ageing infrastructure has been lagging.

8. Employee Benefits and other liabilities are not adequately funded.

The rest of this section is devoted to describing each one of the eight financial issues; describes the corresponding symptoms; lists the actions taken by the City to date; highlights the preferred outcomes; and provides recommendations. These recommendations relate to financial strategies, principles and policies where appropriate. Once these recommendations are adopted by Committees and ultimately Council, they will become the fundamental ground rules based on which Council should make decisions having financial implications. It is intended that the fiscal principles adopted will replace the previous 14 Fiscal Sustainability Principles approved by Council in 2002.

A summary of the ensuing section with the corresponding recommendations is contained in the appendix as Appendix C.

A. EXPENDITURE ISSUES

ISSUE 1

The City of Toronto has a higher cost structure than other municipal governments in the rest of GTA, e.g. Police, transit, social assistance, social housing, and debt charges.

Symptoms:

- Mature, sizeable, high-density, fully-built urban form
  - Highest per capita transit utilization in Canada
  - Higher costs for road maintenance, street cleaning, snow removal, garbage collection, emergency services
- Big-city cost of living
  - Higher employee compensation relative to smaller municipalities
- Provincial capital; major centre of economic activities, business conventions, sports activities, entertainment and tourism; concentration of international consulates
  - Complex demands for protection of health and safety
  - Higher costs for emergency services - police, fire and ambulance. Highest police operating cost per capita in the Province, almost 50 per cent above Provincial average on a household basis.
- Regional /national destination for immigrants – disproportionate number of households, including seniors and children, below Low-Income-Cut-Off,
  - Significantly higher demands for social services and affordable housing
  - Demands for income support programs relative to property tax and user fee relief
- Regional /national destination for homeless population
  - Significantly higher demands for hostel services
- Highest debt charges per capita in the GTA

ACTIONS TO DATE

- Program review and prioritization
- Implementation of comprehensive performance measures and benchmarking
- Continuous Service Improvement Initiatives
- Establishment of an Auditor General
- Expenditure freeze since late 2003
- Capital Financing Plan updated annually

PREFERRED OUTCOMES

- Improve public service – No. (1) of Council's Priorities for the 2003-2006 Term
- Improve financial flexibility of the City
- Improve the City's competitiveness and performance measures relative to its peers
- Improve the predictability of regular costs:
  A. Salaries and Wages:
     - Economic factors (Inflation-related salary adjustments)
     - Merit increases
     - Wage Harmonization
     - Contract settlements
  B. Non-salary costs, e.g. utility increases, contract increases, material and supplies inflationary increases

ISSUE 1 RECOMMEDATIONS

Strategies

1. The City should continue to engage in Continuous Service Improvement.

2. The City should continue to exercise fiscal restraint.

3. The Federal Government should pay for the full costs of Federal programs which impact Toronto.

4. Program specific funding transfers from other orders of government should recognize the City's higher cost structure with respect to those services.

Principles

1. All activities should be reviewed in the context of affordability *(new)*.

2. All new initiatives should be accompanied by a business case and a timetable for a post-implementation review and/or sunset provision (*new*).

3. The cost of servicing new debt should not negatively affect the City's credit rating which should be maintained at the current level (AA for long-term debt) or higher (*revised based on Council's Strategic Plan January 2002*).

Policies

1. City programs will be reviewed periodically to assess their relevance to current City priorities, objectives, their effectiveness and efficiency.

ISSUE 2

Demands for growth as laid out in the Official Plan or other Sectoral and program plans are not adequately funded.

Symptoms:

- Inability to implement service enhancements as planned
- Difficulty in meeting current service demands
- Increasing pressures on infrastructure, congestion

ACTIONS TO DATE

- Council priorities for the 2003-2006 term established
- Preparation of new Official Plan
- Preparation of other Sectoral and Growth Plans, e.g.
  - Economic Development Strategy
  - Social Development Strategy
  - Environmental Plan, Solid Waste Diversion
  - Cultural Plan
  - Parks and Recreation's Our Common Grounds
  - Making Waves (for revitalization of the Waterfront)
  - TTC Ridership Growth Strategy
  - Wet Weather Flow Management Master Plan
- Identification of new service demands and emerging costs that have operating budget impacts, e.g.
  - Solid waste disposal / diversion
  - Further service harmonization
  - Children's Report Card implementation
  - West Nile virus, Tuberculosis
  - Emergency Services / Security — Police, Fire, Ambulance
  - Affordable Housing / Shelters for the homeless
  - New facilities — community centres, parks, police stations, fire stations, daycare spaces
- Council adoption of Development Charges By-law
- Council adoption of multi-year business plans, e.g. Toronto Water

PREFERRED OUTCOMES

- Provide adequate funding to maintain existing assets and service levels.
- Provide funding to support adequate infrastructure, services and service levels consistent with growth in demand.
- Increase investment in communities, and provide stronger neighbourhoods to deal with the challenges of increasing population, poverty, underemployment, the settlement of new immigrants, and lack of services.

- Make progress on the Waterfront – No. (2) of Council's Priorities for 2003 – 2006 Term
- Strengthen at-risk neighbourhoods – No. (5) of Council's Priorities for 2003 – 2006 Term

ISSUE 2
RECOMMENDATIONS

Strategies

1. Plans for growth should be implemented consistent with the affordability level.

2. Other orders of government should provide the City with adequate financial resources to support TTC's growth requirements.

3. The City request the Province of Ontario to amend the Development Charges Act:
   (a) so that no municipal services are excluded from the development charge calculation;
   (b) to allow municipalities to adopt service levels that are in keeping with Council-approved long-term service plans for the purposes of calculating development charges, instead of the average service levels during the 10-year period immediately preceding the preparation of the background study, as allowed under existing legislation; and
   (c) so that the 10 per cent service discounts are removed.

Principles

1. Investment in new infrastructure should be based on analysis of shifts in demographic growth and existing unmet needs (*per Council's Strategic Plan January 2002*).

Policies

1. Approval of updated Development Charges By-law *(adopted by Council June 2004)*

ISSUE 3

There is variability in certain program expenditures from year to year.

Symptoms:

- Unanticipated extraneous events in 2003 such as the Severe Acute Respiratory Syndrome (SARS), or the August power outage in Toronto and the Central-eastern Provinces, have resulted in unanticipated over-expenditures in certain programs such as Public Health, and/or revenue shortfalls in others such as TTC, Exhibition Place and the Zoo.

- Certain program expenses are cyclical, e.g. cost of municipal elections every three years.

- Income distributive programs such as social assistance payments are negatively impacted during economic slowdown.

- Major capital expenditures are anticipated in future years, e.g. housing capital maintenance, transit vehicle replacement, and major road maintenance backlog.

ACTIONS TO DATE

a. In 2000 Council adopted the recommendation contained in the report titled "Longer Term Reserve and Reserve Fund Adequacy and Funding Strategies", which stated that the Chief Financial Officer and Treasurer be requested to continue to report on the adequacy of reserve and reserve funds, and to identify funding strategies to enhance the City's financial position

b. A number of stabilization reserve funds have been established for the purpose of risk financing, e.g.

   - TTC Ridership Stabilization

   - Social Assistance Stabilization
     - Caseload projections based on modelling of realistic economic drivers as well as economic downturn scenarios
     - The Ontario Government was requested to re-institute the fail-safe strategy for social assistance and the full costs of refugee claimants which existed prior to 1998 whereby higher social assistance caseloads would trigger a higher Provincial cost-sharing percentage.

   - Social Housing Stabilization – reserve fund established and funding adequacy reviewed

   - Weather risk – analysis of financial risk exposure by the City due to extreme weather conditions completed

c. A number of reserves/reserve funds have been established where future costs are anticipated, e.g. City-owned vehicles, Facilities, Insurance

PREFERRED OUTCOMES

1. The City is adequately protected from financial risks associated with expenditure/ revenue variability.

2. Financial plans are put in place to deal with budget variability.

3. Rules have been established to manage the creation and administration of reserves/ reserve funds.

ISSUE 3
RECOMMENDATIONS

Strategies

1. Target balances and financing plans should be established for each reserve and reserve fund, and should be based on the purpose on which the fund was based.

2. There should be periodic reviews of the relevance and adequacy of each major reserve and reserve fund.

Principles

1. Reserves and reserve funds should be used to fund anticipated potential liabilities, stabilizing (smoothing of) revenues and expenditures that are subject to cyclical fluctuations, extraordinarily large purchases, or self-financing on-going activities (*revised based on Council's Strategic Plan January 2002*).

Policies

1. Reserve Fund By-law (Municipal Code 227) specifies the purpose and use of each reserve and reserve fund.

B. REVENUE ISSUES

ISSUE 4

Business taxes are not competitive.

Symptoms:

- Little commercial development, with city borders especially affected
- Minimal assessment growth over the last few years

ACTIONS TO DATE

- Business tax rates were frozen from 1998 to 2003 and increased at half of the increase applied to the residential rate in 2004 and 2005.
- The Province has been requested to reduce the Business education tax rates to the GTA average.
- In June 2004 City Council adopted the following guiding principles relating to property tax policies:

  1. Tax ratios are an important measure of tax fairness and equity between the various property classes. Reasonable targets for tax ratios should be set, and tax policies regarding budgetary levy increases and tax ratio-related tax burden shifts between classes should be made with a view of respecting and achieving these targets over a reasonable period of time.
  2. The current capping regime is ineffective and will prolong historic tax inequities. However, any changes to the capping program in order to facilitate the transition to Current Value Assessment (CVA) should have regard for maintaining a manageable pace of change for property owners. A longer transition period should be available for those properties facing large increases.
  3. Property tax protection for vulnerable business must be developed in conjunction with any other changes that facilitate the transition to CVA, with a view to achieving equity to the extent possible between various property types, objectivity in defining eligible properties, longer-term stability and certainty for property owners, and transparency in administration.
  4. A view to achieving equity and fairness in tax rates for both the municipal and education portion taxes should be taken. The Province must be encouraged to show its commitment to reduce Toronto's business education tax rate disparity vis-à-vis the surrounding GTA municipalities.

PREFERRED OUTCOMES

- Business climate is improved – No. (3) of Council priorities for the 2003 – 2006 Term

- Business taxes are competitive with the rest of the GTA as well as other major Canadian cities.
- Commercial and industrial property assessment growth in the City is increased.
- Jobs are maintained within the City.

ISSUE 4
RECOMMENDATIONS

Strategies

1. The Province should provide business education tax relief by lowering the business tax rates to the GTA average.
2. The City should have the flexibility to rectify or re-dress tax ratios between business tax rates and those on residential properties.

Principles (in addition to the 4 guiding principles per above)

1. Affordability of a tax increase should first be viewed in the context of general inflation and/or the growth in the economy, consistent with the changes in the costs of maintaining or enhancing existing service levels (*new*).
2. Tax increases should be based on service level costs and provide flexibility for taxpayers with limited fixed incomes (*per Council's Strategic Plan January 2002*).

Policies

Pending – as part of an upcoming report to the Policy and Finance Committee

ISSUE 5

The City lacks adequate revenue sources to fund its municipal responsibilities.

Symptoms:

- Significant annual budget pressures in the last six years
- Balancing of the last six budgets only achieved through one-time provincial assistance, ad hoc measures and rising future debt service obligations
- The City's property tax assessment is still below 1992 level.
- Waiting lists exist for many services
- Service levels are still not harmonized across the City
- There are high unmet needs in several programs
- There is evidence of crumbling infrastructure

ACTIONS TO DATE

A. Non-Tax Revenue Options:

- Capacity to increase existing rates
  - Comparative analysis completed of City rates for selected services in comparison with GTA, e.g. TTC fares and recreational program fees
  - User fees reviewed to clarify calculation methodologies
  - Work on the User Fees By-Law is in progress
  - Significant efforts have been made to secure City's right to obtain access fee revenues and road cut compensation
  - Energy Transfer Agreement was negotiated with Enwave regarding Deep Lake Water Cooling
  - Efforts have been made to support a CRTC case and to explore Municipal Act restrictions on ability to recover road cut costs. So far, these efforts have been unsuccessful.

- Identification of Possible New Sources
  - Corporate Sponsorship study completed
  - User Fee survey completed to seek out untapped revenue sources
  - Analysis of other options underway, e.g. share of growth taxes and other revenue sources with other orders of government

B. Council established seven funding priorities for the City, as part of its effort to develop a stronger relationship with the Province, at its May 2003 meeting:

1. adequate funding to support public transit rehabilitation and renewal based on the past provincial model, of 75 per cent capital and 50 per cent operating subsidy;

2. adequate funding for the remediation of crumbling infrastructure, such as roads, sewers and bridges, in the City of Toronto;

3. adequate funding to support affordable housing and legislative authority to preserve rental housing stock, including the City of Toronto being a signatory to Federal/Provincial housing agreements;

4. adequate funding to expand the number of affordable child care spaces, including the City of Toronto being a signatory to Federal/Provincial child care agreements;

5. a fair share of funding for immigration settlement costs, including the City of Toronto being a signatory to Federal/Provincial immigration agreements;

6. authority to levy appropriate fees, including a destination marketing fee; and

7. implementation of the full Rozanski report recommendations, including the community use of schools and related fees

PREFERRED OUTCOMES

- Get the powers and funding needed for Toronto to succeed – No. (7) of Council's Priorities for the 2003 – 2006 Term
- Ensure housing is affordable – No. (6) of Council's Priorities for 2003 – 2006 Term
- Improve City's financial flexibility
- Adequately fund physical infrastructure with respect to capital maintenance, rehabilitation and growth
- Improve City's competitiveness and credit rating by minimizing its debt load and cost of borrowing

ISSUE 5
RECOMMENDATIONS

Strategies

1. Current sources of financing should be reformed, e.g. property tax, development charges

2. Alternative revenue sources should be explored, e.g. destination marketing fee

3. Other orders of governments should provide the City with new revenue sources, e.g. sharing of fuel taxes, new tax tools through enabling legislation, and sharing of consumption taxes.

Principles

1. Innovative approaches to financing services should be considered before using property tax financing, i.e. property tax is the funding source of the last resort (*new*).
2. The pricing of user fees should generally take into consideration of the full cost of the service (direct, indirect and the cost of capital) (*new*).

Policies

None identified to date

ISSUE 6

Improper funding of Provincial cost-shared programs has resulted in significant financial pressures for the City:

- **Capping of Provincial share**
- **Tentative capping of GTA pooling revenues**
- **Social service costs / risk exposure**

Symptoms:

- Loss of subsidized child care spaces
- Inadequate hostel spaces to meet the demands of the homelessness
- Funding for Ontario Works program administration becoming 36 per cent provincial and 64 per cent municipal, rather than 50:50 as previously agreed on
- High property tax burden
- Tapping of Council-directed reserves/reserve funds to offset program shortfalls which are not related to the purposes for which the funds were set up

ACTIONS TO DATE

Council has requested the Province to honour its cost-sharing formula.

PREFERRED OUTCOMES

- Get the powers and funding needed for Toronto to succeed – No. (7) of Council's Priorities for the 2003 – 2006 Term
- Provincial cost-shared programs are properly funded by the Province and the City.
- Credit ratings are not negatively impacted as a result of Provincial actions or policies.

ISSUE 6 RECOMMENDATIONS

Strategies

1. Income distributive programs should be fully funded from the income tax base (of the Provincial / Federal Governments).
2. The City should prioritize its programs and services, and focus on its core responsibilities.
3. Program and funding responsibilities of current services should be rationalized with other orders of government.
4. Funding from other orders of government should equal program commitment.

Principles

1. The property tax base should not be used to fund income distributive programs (*new*).

Policies

None identified to date

C. ASSET & LIABILITY ISSUES

ISSUE 7

City's investment in its ageing infrastructure has been lagging.

Symptoms:

- More potholes on City streets
- Fewer well-kept buildings
- Rusty vehicles
- Vehicle breakdown
- More water and sewer pipe breaks within the City
- Replacement rather than repair of some crumbling infrastructure

ACTIONS TO DATE

- Surplus Allocation Policy adopted by Council to apply excess operating surplus above a target level to the Capital Financing Reserve to help fund capital requirements

- Council approved guideline limit on debt charges at 10 per cent of property tax revenues

- Capital from Current has been increased by about 25 per cent since amalgamation

- Funding Capital from Current increases and the long-term capital financing plan recommended by the Ad Hoc Committee for the Development of the Long-Term Fiscal Plan:
  - Establishment of baseline debt as a guideline ($135 million in 2005) such that capital program would be constrained and average borrowing would be limited to the baseline debt except for TTC and Transportation
  - Capital from Current options considered and overlaid on the overall operating forecast
- Use of Hydro Proceeds to reduce the City's annual debt requirements prior to 2004
- One-time revenues have been applied where possible to reduce debt issuance, e.g. surplus land sales, OMERS surplus

- Progress made for the determination of capital needs requirements:
  - State of Good Repair — Significant progress made in asset condition studies (including backlogs and asset values) and determining long-term requirements by TTC, Transportation, Parks and Recreation, Facilities, etc.
  - Growth/Expansion
    - TTC — Ridership Growth Strategy and Subway Expansion Plan completed and considered by the City
    - Ongoing work on the refinement of the City's expansion needs, particularly in major infrastructure in concert with the Official Plan and intensification

- Innovative capital financing options considered:
  - TTC Subway car lease considered and approved by Council but currently on hold due to changes in U.S. tax legislation.
- Alternative Instruments
  - Successfully worked with the Province to change legislative basis of financing, e.g. additional tools now available through revenue bonds or construction bonds

PREFERRED OUTCOMES

- Make Toronto a clean and beautiful city – No. (4) of Council's Priorities for 2003 – 2006 Term

- Improve the City's quality of life, image and competitiveness by properly maintaining and developing its physical infrastructure

ISSUE 7
RECOMMENDATIONS

Strategies

1. Funding priority should be given to physical infrastructure's State of Good Repair over Growth.

2. Funding priority should be given to preventive maintenance to reduce replacement cost.

3. Strategic investment in physical infrastructure should be given priority to maintain City residents' quality of life.

4. Strategic asset management policies should be employed.

Principles

1. Infrastructure should be replaced when it can be demonstrated that the replacement cost and subsequent maintenance cost are less expensive than maintaining the existing asset in a state of good repair over the same period of time (*revised based on Council's Strategic Plan January 2002*).

2. Debt repayment period should not exceed the useful life of the asset for which the debt is incurred (*per Council's Strategic Plan January 2002*).

Policies

1. **Policy on Management of Operating Budget Surpluses *(approved by Council in September 2004)*:**

   (a) The surplus carried forward should be zero by the 2007 fiscal year and this is accomplished by reducing the surplus carried forward in 2005 to a target level of $10 million, in 2006 to $5 million and 2007 to zero *(deferred for consideration during the 2005 budget process)*;

   (b) For the fiscal 2004 surplus, if any, the Chief Financial Officer and Treasurer is authorized, consistent with item a above, to apply any additional surplus entirely to the Capital Financing Reserve Fund;

(c) Starting with fiscal 2005, for any surplus, the Chief Financial Officer and Treasurer is authorized, consistent with item a above, to apply any additional surplus, in priority order to:
- Capital Financing Reserve Fund (at least 75 per cent of the additional surplus); and
- the remainder to fund any under-funded liabilities, and/or reserves/reserve funds, as determined by the Chief Financial Officer and Treasurer; and

(d) The Chief Financial Officer and Treasurer report such contributions as per items b and c to the Budget Advisory Committee, Policy and Finance Committee and Council following the closing of the accounts for the prior year.

2. As a guideline, debt service charges should not exceed 10 per cent of net property tax levy *(approved by Council in February 1998)*.

ISSUE 8

Employee Benefits and other liabilities are not adequately funded.

Symptoms:

- Employee Benefits liabilities increased to $1.780 billion, only partially offset by a reserve fund balance of $235 million (uncommitted as at December 31, 2004 including Sick Leave and Workers' Compensation), resulting in significant under-funding.
- Insurance Reserve Fund is significantly underfunded -- balance as at December 31, 2004 was $9.1 million, while the liability was estimated at $67 million.

ACTIONS TO DATE

- Preliminary funding strategies for employee benefit liabilities adopted by Council *(November 2001)*
- Updated actuarial valuation of employee benefit liabilities completed
- Annual funding for Insurance Reserve Fund increased by $12 million since 1998
- Perpetual Care Reserve for landfill in place and its adequacy reviewed
- Other environmental liabilities not adequately quantified, and therefore, funding strategies not yet identified

PREFERRED OUTCOMES

All financial liabilities are properly funded and the City's financial risks are minimized.

ISSUE 8 RECOMMENDATIONS

Strategies

1. Financial risks should be recognized and properly funded.
2. Funding for underfunded liabilities should at least be increased in the next five years to ensure the current gaps do not widen.
3. Work is in progress to quantify environmental liabilities.

Principles

1. Reserves and reserve funds should be funded to the levels required for their purposes *(per Council's Strategic Plan January 2002).*

Policies

None identified to date

A mechanism is suggested to ensure that Council actions are consistent with previously enacted Council financial principles, policies and plans

Section 4 (The Fiscal Plan – Financial Issues, Preferred Outcomes and Recommendations) highlights the main thrust of the Long-Term Fiscal Plan.

Once City Council has adopted the recommendations contained in this Plan (being strategies, principles and policies), these recommendations should become a set of fundamental ground rules informing Council decisions having financial implications.

The Ad Hoc Committee for the Development of a Long-Term Fiscal Plan, at its May 25, 2004 meeting, requested that the Chief Financial Officer and Treasurer submit a report on the "potential procedures to ensure that Council adheres to the Fiscal Sustainability Principles once they are adopted". The Ad Hoc Committee made note of the fact that the City has established 14 Fiscal Sustainability Principles as part of Council's Strategic Plan dated January 2002 and numerous financial policies, such as the policy on management of Operating Budget surpluses, and that Council and its Committees need to be cognizant of them on a day to day basis when making subsequent decisions.

A question arose as to whether there was a mechanism within the current procedures, or through an amendment to the current procedures, which would make it clearer to Council that policies were in place which impacted on a proposition currently before a Committee or Council, or a mechanism which could prevent a Committee or Council from over-riding a previously approved policy or principle established by Council. The Ad Hoc Committee requested that staff report back on this matter.

Council, at its meeting of September 28, 29, 30 & October 1, 2004, adopted the staff recommendations in Clause No. 35 of Policy and Finance Committee Report No. 7 entitled 'Member Requests for Information and Review of Council Procedures Regarding Various Matters'. The report recommended that a working group of Councillors and the City Clerk be established to conduct a review, and where necessary, redesign Chapter 27, Council Procedures, of the City's Municipal Code to meet Council's needs and respond to its priorities, be understandable to all stakeholders, result in clear decisions and transparent decision making and support the implementation of Council's meeting management initiative. Municipal Code Chapter 27 Council Procedures governs the conduct of business for Council and its Committees. Subsequently, the Working Group on the Procedural By-Law and the Meeting Management Initiatives has been struck.

The Chief Financial Officer and Treasurer sent a communication to the City Clerk, conveying the concerns of the Ad Hoc Committee about the current procedures and requesting that the Working Group give consideration to strengthening the force of financial principles, policies and plans.

In the same communication, the Chief Financial Officer and Treasurer also requested the Working Group consider incorporating the financial protocols from the joint report of the Chief Administrative Officer and the Chief Financial Officer and Treasurer entitled 'Financial Control Protocols within the Revised Council-Committee Structure' adopted by Council on July 27 - 30, 1999 into the Procedural By-Law.

Future Work Plan

Planning for fiscal sustainability is an on-going endeavour. This present document is the first ever long-term financial plan for the new City of Toronto. There are issues that need further review, or there may be new issues arising. Appendix B is a Work Plan for the Long-Term Fiscal Plan. It is arranged firstly by the three main components for financial strategies, namely: Expenditure Strategies, Revenue Strategies, and Asset & Liability Funding Strategies. Next each key issue sub-component of the Plan is listed with a description of what it is, the format of the outcome or product, such as the development of a strategy, principle or policy, and the timing for completion.

Once all issue components contained in the work plan have undergone reviews, staff will then develop appropriate financial strategies, principles and policies to be incorporated into the plan. It should be noted that some policies may require further review and will be brought forward in 2005. The issue components that have Timing/ Priority as "Long-Term" are the ones upon which staff will report back. They include but are not limited to the following:

- Enhancing Toronto's business climate including property tax policies
- Long-term expenditure framework
- Refinement of estimates for costs of growth
- Funding options for new Federal and Provincial revenues
- Options for uploading of costs and/or selected services to other orders of government
- Framework for user fees, fines and licence fees and calculation methodologies
- Water rate structure
- Strategy on property assessment exemptions
- Payments-in-lieu of taxes strategy
- Strategies on new revenues, such as donation strategy, revenue-sharing strategy with Province regarding gaming, and revenue allocation strategy
- Infrastructure funding strategies

Approved financial strategies, principles & policies should be incorporated into the annual budget guidelines

The Deputy City Manager and Chief Financial Officer will develop, review and update fiscal strategies, principles and policies as the work plan is carried out and each issue sub-component is reviewed, and report back to Council through the Policy and Finance Committee.

The adopted financial principles, policies and financial control protocols will be incorporated into the annual budget guidelines so that both staff and Councillors can have easy access and reference to these financial principles and policies during budget deliberations.

Section 6: Appendices

Appendix A

Members of the Ad Hoc Committee for the Development of a Long-Term Fiscal Plan (for Council Term 2004-2006)

Councillor David Soknacki (Chair)
Councillor Brian Ashton
Councillor Glenn De Baeremaeker
Councillor Janet Davis
Councillor Doug Holyday
Councillor Norm Kelly
Councillor Peter Milczyn

Appendix B
Work Plan for the Key Elements of the Long-Term Fiscal Plan

Comp-onent	Sub-Component	Description	Outcome / Product (e.g. strategy, policy, principle)	Timing/Priority 1 = immediate 2 = Nov 2004 3 = Long-term
A. Expenditure Strategies				
1	Capital Affordability	• Infrastructure needs • Service levels & capital affordability targets • Review of funding options	Capital Financing Strategy	Completed 1 – Nov/Dec 2004 Council
2	Operating expenses: (a) Compensation (b) Non-compensation	• Forecasting for cost increases for compensation and non-compensation items • Funding options	• Long Term Forecast • Funding strategies for expenditure increases	1 – immediate 2 – Nov 2004
B. Revenue Strategies				
1	Property Tax Policy (a) Business tax competitiveness (b) CVA phase in including small business protection	Property tax policy to improve the City's competitiveness, alleviate tax burden on vulnerable groups and maximize tax revenues	• Consultative Framework (completed) • Policy recommendations (pending)	Completed Pending
2	Requirements for new Federal & Provincial funding	Refinement of City's needs	Funding options	On-going
3	Uploading of costs and/or selected services to other orders of governments	Refinement of City's needs	Funding options	On-going
4	User Fees, Fines & Licence Fees framework & calculation methodologies	Policy for User Fees, Fines and Licence Fees to maximize fee revenues while ensuring that the City remains competitive and vulnerable groups are protected	Policy Recommendations	3 – Long-term
5	Water Rates (a) Long term strategy (b) Rate structure	• Policy for Water and Wastewater Rates • Forecasting for future requirements • Funding options	• Long-term Water Rate Strategy (completed) • 2005 Rate Recommendation • Water Rate Structure	Completed 1 – Nov 2004 Works Committee 3 – Long-term
6	Property Assessment: (a) Assessment Growth Enhancement (b) Assessment Exemptions	• Options to promote assessment growth & enhancement • Review of assessment exemptions to ensure tax revenues are maximized within equitable principles	• Economic Development Strategy (completed) • Review of exemptions	Completed 3 – Long-term
7	Payment-In-Lieu (PIL) on Federal - Provincial properties	Review of PILs on Federal & Provincial properties to ensure revenues are maximized within equitable principles	PIL strategy	3 – Long-term
8	Investments	Investment policy to ensure City's investment earnings are maximized	Investment policy	Completed Next report due May 2005

Comp-onent	Sub-Component	Description	Outcome / Product (e.g. strategy, policy, principle)	Timing/Priority 1 = Immediate 2 = Nov 2004 3 = Long-term
9	New Revenues: (a) Donation (b) Gaming (c) Others	New revenue sources (within City's mandate) to improve City's revenue flexibility & maximize City's revenues, while complying with legislative requirements, Canadian Institute of Chartered Accountants' accounting & reporting standards, as well as best practices according to Government Finance Officers Association.	• Donation Strategy • Revenue-sharing strategy with Province re gaming • Revenue Allocation Strategy	3 – Long term 3 – Long term 3 – Long term
10	Development Charges	• Forecasting for growth in developments • Capital affordability • Funding options	Development Charges Policy (completed)	Completed
C. Asset and Liability Funding Strategies				
1	Infrastructure, e.g. (a) Vehicle (b) Equipment (c) IT (d) Facilities (e) TTC (f) Roads (g) Housing (h) Homes for the Aged (i) Water & wastewater	• Funding options for physical assets to ensure adequate resources are provided for the rehabilitation & replacement of existing asset, and purchase of new asset to meet service and growth demands • Example: annual contributions to reserve/reserve funds based on funding formulae	• Capital Financing Strategy • Infrastructure Funding Strategies	Completed 1 – Nov/Dec 2004 Council 3 – Long term
2	Employee Benefits	• Proper estimate of liabilities relating to employee benefits, e.g. future pension payouts, sick leave benefits, WSIB obligations, & other employment & post-employment benefits • Funding options including reserve strategy	• Valuation Update • Employee Benefit Funding Strategy	2 – Nov 2004 2 – Nov 2004
3	Stabilization Reserves, e.g. (a) Social Assistance (b) Social Housing (c) Child Care (d) Insurance (e) Working Capital (f) Winter Control (g) WWW (h) ABC	Funding strategies for various stabilization reserves/reserve funds: • to adequately provide for unbudgeted cost increases/revenue losses • to smooth out year-to-year net cost fluctuations • to ensure risk management principles are followed	Various Reserve Funding Strategies	2 – Nov 2004 (Work plan and selected strategies)
4	Capital Financing (a) Debt (b) Lease (c) Alternative Financing (d) Hydro revenues	Financing options for capital expenditures to ensure financing costs are: • minimized while capital assets are protected & properly funded • capital affordability is maintained • City's revenues are maximized /optimized	• Capital Financing Strategy • Lease Financing Policy (completed) • Surplus Allocation Strategy (completed)	1 – Nov/Dec 2004 Council
5	Other assets, e.g. • Surplus land o Allocation of Proceeds o Disposal	Overall review of all other assets to ensure assets are protected and properly funded, and to ensure City's revenues are maximized & properly distributed upon asset disposal	• Policy on Allocation of Proceeds (completed) • Strategy on Disposal of Surplus Land (completed)	Completed

Appendix C
Summary of Issues, Preferred Outcomes and Recommendations

	Issue	Preferred Outcomes	RECOMMENDATIONS		
			Strategies	Principles	Policies
	EXPENDITURES				
1	The City of Toronto has a higher cost structure than other municipal governments in the rest of GTA, e.g. Police, transit, social assistance, social housing, and debt charges.	1. Improve public service – No. (1) of Council's Priorities for the 2003-2006 Term 2. Improve financial flexibility of the City 3. Improve the City's competitiveness and performance measures relative to its peers 4. Improve the predictability of regular costs: A. Salaries and Wages: • Economic factors (Inflation-related salary adjustments) • Merit increases • Wage Harmonization • Contract settlements B. Non-salary costs, e.g. utility increases, contract increases, material and supplies inflationary increases	1. The City should continue to engage in Continuous Service Improvement. 2. The City should continue to exercise fiscal restraint. 3. The Federal Government should pay for the full costs of Federal programs which impact Toronto. 4. Program specific funding transfers from other orders of government should recognize the City's higher cost structure with respect to those services.	1. All activities should be reviewed in the context of affordability (*new*). 2. All new initiatives should be accompanied by a business case and a timetable for a post-implementation review and/or sunset provision (*new*). 3. The cost of servicing new debt should not negatively affect the City's credit rating which should be maintained at the current level (AA for long-term debt) or higher (*revised based on Council's Strategic Plan January 2002*).	1. City programs will be reviewed periodically to assess their relevance to current City priorities, objectives, their effectiveness and efficiency.
2	Demands for growth as laid out in the Official Plan or other Sectoral and program plans	1. Provide adequate funding to maintain existing assets and service levels. 2. Provide funding to support adequate	1. Plans for growth should be implemented consistent with the affordability level. 2. Other orders of government should provide the City with adequate financial resources to	1. Investment in new infrastructure should be based on analysis of shifts in demographic growth and existing unmet needs (*per Council's Strategic Plan January 2002*).	1. Approval of updated Development Charges By-law *(adopted by Council June 2004)*

	Issue	Preferred Outcomes	RECOMMENDATIONS		
			Strategies	Principles	Policies
	are not adequately funded.	infrastructure, services and service levels consistent with growth in demand. 3. Increase investment in communities, and provide stronger neighbourhoods to deal with the challenges of increasing population, poverty, underemployment, the settlement of new immigrants, and lack of services. 4. Make progress on the Waterfront – No. (2) of Council's Priorities for 2003 – 2006 Term 5. Strengthen our at-risk neighbourhoods – No. (5) of Council's Priorities for 2003 – 2006 Term	support TTC's growth requirements. 3. The City request the Province of Ontario to amend the Development Charges Act: (a) so that no municipal services are excluded from the development charge calculation; (b) to allow municipalities to adopt service levels that are in keeping with Council-approved long-term service plans for the purposes of calculating development charges, instead of the average service levels during the 10-year period immediately preceding the preparation of the background study, as allowed under existing legislation; and (c) so that the 10 per cent service discounts are removed.		
3	There is variability in certain program expenditures from year to year.	1. The City is adequately protected from financial risks associated with expenditure/ revenue variability. 2. Financial plans are put in place to deal with budget variability.	1. Target balances and financing plans should be established for each reserve and reserve fund, and should be based on the purpose on which the fund was based. 2. There should be periodic reviews of the relevance and adequacy of each major reserve and reserve fund.	1. Reserves and reserve funds should be used to fund anticipated potential liabilities, stabilizing (smoothing of) revenues and expenditures that are subject to cyclical fluctuations, extraordinarily large purchases, or self-financing on-going activities (*revised based on Council's Strategic Plan January 2002*).	1. Reserve Fund By-law (Municipal Code 227) specifies the purpose and use of each reserve & reserve fund.

	Issue	Preferred Outcomes	RECOMMENDATIONS		
			Strategies	Principles	Policies
	REVENUES				
4	Business taxes are not competitive.	1. Business climate is improved – No. (3) of Council priorities for the 2003 – 2006 Term 2. Business taxes are competitive with the rest of the GTA as well as other major Canadian cities. 3. Commercial and industrial property assessment growth in the City is increased. 4. Jobs are maintained within the City.	1. The Province should provide business education tax relief by lowering the business tax rates to the GTA average. 2. The City should have the flexibility to rectify or re-dress tax ratios between business tax rates and those on residential properties.	Council adopted the following guiding principles relating to property tax policy in June 2004 : 1. Tax ratios are an important measure of tax fairness and equity between the various property classes. Reasonable targets for tax ratios should be set, and tax policies regarding budgetary levy increases and tax ratio-related tax burden shifts between classes should be made with a view of respecting and achieving these targets over a reasonable period of time. 2. The current capping regime is ineffective and will prolong historic tax inequities. However, any changes to the capping program in order to facilitate the transition to Current Value Assessment (CVA) should have regard for maintaining a manageable pace of change for property owners. A longer transition period should be available for those properties facing large increases. 3. Property tax protection for vulnerable business must be developed in conjunction with any other changes that facilitate the transition to CVA, with a view to achieving equity to the extent possible between various property types, objectivity in defining eligible properties, longer-term stability and certainty for property owners, and transparency in administration.	1. Pending – as part of an upcoming report to the Policy and Finance Committee

Issue		Preferred Outcomes	RECOMMENDATIONS		
			Strategies	Principles	Policies
				4. A view to achieving equity and fairness in tax rates for both the municipal and education portion taxes should be taken. The Province must be encouraged to show its commitment to reduce Toronto's business education tax rate disparity vis-à-vis the surrounding GTA municipalities. In addition to the four guiding principles per above: 1. Affordability of a tax increase should first be viewed in the context of general inflation and/or the growth in the economy, consistent with the changes in the costs of maintaining or enhancing existing service levels (*new*). 2. Tax increases should be based on service level costs and provide flexibility for taxpayers with limited fixed incomes (*per Council's Strategic Plan January 2002*)	
5	The City lacks adequate revenue sources to fund its municipal responsibilities.	1. Get the powers and funding needed for Toronto to succeed – No. (7) of Council's Priorities for the 2003 – 2006 Term 2. Ensure housing is affordable – No. (6) of Council's Priorities for 2003 – 2006 Term 3. Improve City's financial flexibility 4. Adequately fund physical infrastructure with respect to capital	1. Current sources of financing should be reformed, e.g. property tax, development charges 2. Alternative revenue sources should be explored, e.g. destination marketing fee 3. Other orders of governments should provide the City with new revenue sources, e.g. sharing of fuel taxes, new tax tools through enabling legislation, and sharing of consumption taxes.	1. Innovative approaches to financing services should be considered before using property tax financing, i.e. property tax is the funding source of the last resort *(new)*. 2. The pricing of user fees should generally take into consideration of the full cost of the service (direct, indirect and the cost of capital) *(new)*.	1. None identified to date

	Issue	Preferred Outcomes	RECOMMENDATIONS		
			Strategies	Principles	Policies
		maintenance, rehabilitation and growth 5. Improve City's competitiveness and credit rating by minimizing its debt load and cost of borrowing			
6	Improper funding of Provincial cost-shared programs has resulted in significant financial pressures for the City: • Capping of Provincial share • Tentative capping of GTA pooling revenues • Social service costs / risk exposure	1. Get the powers and funding needed for Toronto to succeed – No. (7) of Council's Priorities for the 2003 – 2006 Term 2. Provincial cost-shared programs are properly funded by the Province and the City. 3. Credit ratings are not negatively impacted as a result of Provincial actions or policies.	1. Income distributive programs should be fully funded from the income tax base (of the Provincial / Federal Governments). 2. The City should prioritize its programs and services, and focus on its core responsibilities. 3. Program and funding responsibilities of current services should be rationalized with other orders of government. 4. Funding from other orders of government should equal program commitment.	1. The property tax base should not be used to fund income distributive programs (*new*).	1. None identified to date

	Issue	Preferred Outcomes	RECOMMENDATIONS		
			Strategies	Principles	Policies
ASSETS & LIABILITIES					
7	City's investment in its ageing infrastructure has been lagging.	1. Make Toronto a clean and beautiful city – No. (4) of Council's Priorities for 2003 – 2006 Term 2. Improve the City's quality of life, image and competitiveness by properly maintaining and developing its physical infrastructure	1. Infrastructure should be replaced when it can be demonstrated that the replacement cost and subsequent maintenance cost are less expensive than maintaining the existing asset in a state of good repair over the same period of time (*revised based on Council's Strategic Plan January 2002*). 2. Debt repayment period should not exceed the useful life of the asset for which the debt is incurred (*per Council's Strategic Plan January 2002*).	1. Infrastructure should be replaced when it can be demonstrated that the replacement cost and subsequent maintenance cost are less expensive than maintaining the existing asset in a state of good repair over the same period of time (*revised based on Council's Strategic Plan January 2002*). 2. Debt repayment period should not exceed the useful life of the asset for which the debt is incurred (*per Council's Strategic Plan January 2002*).	1. Policy on Management of Operating Budget Surpluses *(approved by Council in Sep 2004)*: (a) The surplus carried forward should be zero by the 2007 fiscal year and this is accomplished by reducing the surplus carried forward in 2005 to a target level of $10 million, in 2006 to $5 million and 2007 to zero *(deferred for consideration during the 2005 budget process)*; (b) For the fiscal 2004 surplus, if any, the CFO is authorized, consistent with item a above, to apply any additional surplus entirely to the Capital Financing Reserve Fund; (c) Starting with fiscal 2005, for any surplus, the CFO is authorized, consistent with item a above, to apply any additional surplus, in priority order to: i. Capital Financing Reserve Fund (at least 75 per cent of the additional surplus); and ii. the remainder to fund any under-

Issue		Preferred Outcomes	RECOMMENDATIONS		
			Strategies	Principles	Policies
					funded liabilities, and/or reserves/reserve funds, as determined by the CFO; and (d) The CFO reports such contributions as per items b and c to the Budget Advisory Committee, Policy and Finance Committee and Council following the closing of the accounts for the prior year. 2. As a guideline, debt service charges should not exceed 10 per cent of net property tax levy *(approved by Council in February 1998)*.
8	Employee Benefits and other liabilities are not adequately funded	1. All financial liabilities are properly funded and the City's financial risks are minimized.	1. Financial risks should be recognized and properly funded. 2. Funding for underfunded liabilities should at least be increased in the next five years to ensure the current gaps do not widen. 3. Work is in progress to quantify environmental liabilities.	1. Reserves and reserve funds should be funded to the levels required for their purposes (*per Council's Strategic Plan January 2002*).	1. None identified to date

Appendix D

Listing of Financial Condition Related Reports

Subject	Report Title	Council / Committee Reference
Charter City and Financial Relationship with Senior Government	Provincial Local Services realignment – Making It Work, and Towards a New Relationship with Ontario and Canada	P&F Report #9 Cl. (1) July 4, 5 & 6, 2000
	The Relationship of 5 Charter Cities and Their Provinces	P&F Report #12 Cl. (73c) Oct. 3, 2000
	Implementation Strategy and Citizen Engagement Process to Establish a New Relationship with Ontario and Canada	P&F Report #11 Cl. (1) Oct. 3, 2000
	Share of Senior Government Revenues with Municipalities	BAC Cl.(4) March 19, 2001
	Establishing a New Relationship with the Federal and Provincial Governments - Progress Report on Toronto's Initiatives	P&F Report # 12 Cl. (2) July 30, 31 and August 1, 2002
	Achieving an Improved Legislative Framework for Toronto, "The Right Deal is a Great Deal for Ontario"	P&F Report #4 Cl. (2) May 21, 22 & 23, 2003
	Final Terms of Reference Joint Ontario – City of Toronto Task Force ("Joint Task Force" or "JTF") to Review the City of Toronto Act, 1997 and other Private (Special) Legislation pertaining to Toronto	Strong Cities, Strong Canada website http://www.canadascities.ca/pdf/termsofref_torontoact.pdf Sept 2004
	Funding Pressures in Provincial/Municipal Cost-sharing Programs	P&F Report #9 Cl. (43) Nov 30, Dec 1,2, 2004
Strategic Plan	Council's Strategic Plan – Parts I and Part II	SP&P Report #18 Cl. (2) Oct. 1, 1998 P&F Report #10 Cl.(22) Nov. 23, 1999 P&F Report #10 Cl. (4) August 1, 2 & 3, 2000
	Fiscal Sustainability Principles and Financial Priority Setting	P&F Report #16 Cl. (2) Dec 4,5 &6, 2001
	Council's Strategic Plan with Fiscal Context and Fiscal Sustainability Principles incorporated	April 2002
Sectoral Plans / Growth Plans / Business Plans	Environmental Plan	P&F Report #4 Cl. (8) Apr 11, 12 and 13, 2000 Report #10 Cl.(58) Aug 1, 2, 3 and 4, 2000 Report #2 Cl. (16(n))Feb 1, 2 and 3, 2000
	City of Toronto Culture Plan	Ec & Parks Report #6 Cl. (5) June 7, 8, & 9, 2000 Ec & Parks Report #3 Cl. (8) Apr. 24, 2001
	New Official Plan – Directions Report – Toronto at the Crossroads	Pl & Trans. Report #8 Cl. (1) August 1, 2 & 3, 2000
	Proposed New Official Plan for the City of Toronto and Repeal of the Official Plans for the Former Municipalities of Metropolitan Toronto, East York, Etobicoke, North York, Scarborough, Toronto and York	Pl & Trans Report No. 11 Cl. (1) October 29, 30 and 31, 2002
	City of Toronto Economic Development Strategy	Ec & Parks Report #8 Cl. (2) August 1, 2, & 3, 2000
	Social Development Strategy	P&F Report #16 Cl. (13) December 4, 5 and 6, 2001
	Toronto Bike Plan - Kyoto Accord	Pl & Tran Report #13, Cl.(2) Nov 26, 27 and 28, 2002

Listing of Financial Condition Related Reports

	Toronto Parks and Recreation Strategic Plan - Our Common Grounds	Consolidated Clause in Economic Development and Parks Committee Report # 5 Cl. (2) July 20, 21 and 22, 2004
	Long-Term Fiscal Plan: • Status Report on the Five-year Fiscal Plan • Status Report on the Former Ad Hoc Committee for a Five-year Fiscal Plan • Terms of Reference for Long-Term Fiscal Plan Committee • Status Report on the Long-Term Fiscal Plan • Discussion Paper on the Key Elements of the Long-Term Fiscal Plan	 Ad Hoc Committee for Five-Year Fiscal Plan Sept. 16, 2003 Ad Hoc Committee for the Development of a Long-Term Fiscal Plan May 26, 2004 P&F Report #5 Cl. (9) Jun 22,23,24, 2004 Ad Hoc Committee for the Development of a Long-Term Fiscal Plan July 14, 2004 Ad Hoc Committee for the Development of a Long-Term Fiscal Plan Oct 20, 2004
	Toronto Transit Commission (TTC) Ridership Growth Strategy - 2004 Budget Adjustment and 2005 Budget Pre-Approval	P&F Report # 7 Cl. (18a) Oct 26, 27 and 28, 2004
	Toronto Water 2005 Multi-Year Business Plan	Works Report #10 Cl.(5) Nov 30, Dec 1,2, 2004
	Solid Waste Management Services Draft Multi-Year Business Plan	Works Committee Meeting 14 Report #4 Dec 8, 2004
Assessment and Taxation	Property Tax System	SP&P Reports #12 & 13 July 12 & 23, 1998
	Tax Policy for 2001 and Beyond ...	P&F Report #12 Cl. (11) Oct. 3, 2000
	Overview of the 2001 Provincial Re-assessment – Impacts and Tax Policy Options Reports	P&F Report #4 Cl. (2) Apr 24, 2001
	2003 Education by-law, 2003 Commercial, Industrial & Multi-Residential Clawback by-law	P&F Report #2 Cl (3) Feb 24-28, 2003 & Mar 3, 2003
	Deferral of Property Tax Payments – All Wards	City Council Ref: 2003-10-J(12) Jul 22,23,24, 2003
	2004 Current Value Assessment (CVA) Changes and Tax Policy Options (All Wards)	P&F Report #1 Cl. (10) Jan 27,28,29 2004
	2004 CVA & Tax Policy Options – Senior & Low-Income Disable persons Eligibility Criteria (All Wards)	P&F Report #2 Cl. (51.E) Feb 20, 2004
	2004 Tax Levy By-laws	P&F Report #3 Cl. (5) Apr. 19-28, 2004
	2004 Provincial Tax Policy Changes	P&F Report #3 Cl. (8) Apr. 19-28, 2004
	Heritage Property Tax Rebate Program – Status Update	P&F Report #3 Cl. (5) Apr 23, 2004
	2004 Education Levy By-law 2004 Commercial, Industrial & Multi-Residential Clawback By-law	Special Council Apr 27, 2004
	Property Tax Policies for 2005 and Beyond – Consultative Framework	P&F Report # 5 Cl. (27) June 22, 23 and 24, 2004
Capital Financing	Preliminary Report on the Sustainability of the Capital Program	P&F Report #1 Cl. (1) Jan. 27, 2000
	2000 Recommended Capital Program Financing – Tax Supported	P&F Report #1 Cl. (1) Jan. 27, 2000
	Recommended 2001-2005 Tax Supported Capital Plan – Debt and Debt Service Impact	P&F Report #5 Cl (1) Apr. 24,2001
	Water Rate and Financing Options for the 2001 Operating and 2001-2005 Capital Budgets of the Water and Wastewater Program	P&F Report #5 Cl (3) Apr. 24,2001

Listing of Financial Condition Related Reports

	City of Toronto Support of the GO Transit Capital Growth/Enhancement	P&F Report #4 Cl (6) May 21,22,23, 2003
	Funding of 2003 TTC Capital Shortfall	P&F Report #9 Cl (64) Sept. 22,23,24, 25, 2003
	Overview of Debt Loads and Credit Ratings of Major Canadian Municipalities (2003)	Ad Hoc Committee for the Development of a Long-Term Fiscal Plan July 14, 2004
	Capital Financing Strategy, 2004	P&F Report #8 Cl (1a) Nov 30, Dec 1,2, 2004
	Capital Financing Strategy (2004) – Sup Info	P&F Report #8 Cl (1) Deferred Oct 26, 27,28, 2004
	City of Toronto Support of GO Transit Capital Growth/Enhancement Program	P&F Report # 9 Cl.(4) Nov 30, Dec 1,2, 2004
Reserve/Reserve Funds	Administration of Reserves and Reserve Funds	P&F Report #3 Cl (2) Feb. 29, Mar. 1 &2, 2000
	By-law #181-2000 Administration	Council Apr. 13, 2000
	Year 2000 Reserve and Reserve Fund Continuity Schedule	BAC Cl (1.16b) Apr. 4, 2001
	Establishment of Reserve Accounts for Donations	Midtown Community Council Report #3 Cl. (45) April 16, 17 and 18, 2002
	Underutilized Reserve Funds	BAC Update Apr 1, 2004
	Consolidation of Reserve Funds	P&F Report #4 Cl. (8) May 18,19,20, 2004
	Disposition of Unspent Reserves or Reserve Funds from Closed Capital Projects	P&F Report #9 Cl.(50) Nov 30, Dec 1,2, 2004
Reserve/Reserve Fund Adequacy	Longer Term Reserve and Reserve Fund Adequacy and Funding Strategies	P&F Report #3 Cl. (1) Feb. 29, Mar. 1 & 2, 2000
	Vehicle & Equipment: • 1999 Vehicle and Equipment Replacement Program	P&F Report #5 Cl. (1) July 28 & 29, 1999
	• 2000 Vehicle and Equipment Replacement Program	P&F Report #10 Cl. (7) Aug. 1, 2000
	• Contributions to the Vehicle and Equipment Replacement Reserve	P&F Report #7 Cl. (40(m)) Sept 28, 29, 30, Oct 1, 2004 (referred to BAC)
	TTC – Provincial/Municipal Funding Trends and Longer Term Funding Strategies	P&F Report #4 Cl. (22) July 28 & 29, 1999
	Insurance: • Adequacy of the Insurance Reserve Fund and Insurance Liabilities	P&F Report #7 Cl. (7) June 7, 8, & 9, 2000
	• Insurance Reserve Fund Adequacy	BAC Mar 11, 2004
	Social Assistance: • Adequacy of the Proposed Social Assistance Stabilization Reserve Fund	P&F Report #10 Cl. (20) Nov 23, 24 and 25, 1999
	• Benchmark of an Average Monthly Social Assistance Caseload for Contribution to the Social Assistance Stabilization Reserve Fund	P&F Report #5 Cl.(3) April 26, 2000
	• Update on the Adequacy of the Social Assistance Stabilization Reserve Fund	BAC Apr.6, 2001
	• Purpose of Social Assistance Stabilization Reserve Fund	City Council July 21, 2003
	Employee Benefits: Adequacy of Employee Benefits Reserve Fund	P&F Report #16 Cl. (4) Dec 4, 5 and 6, 2001
	Adequacy of Water and Wastewater Stabilization Reserves	P&F Report # 2 Cl.(10) Feb 13, 14 and 15, 2002

Listing of Financial Condition Related Reports

	Social Housing: • Funding Strategies to Mitigate Social Housing Devolution Risks • Update on the Social Housing Stabilization Reserve Fund	P&F Report #12 Cl. (15) Oct 2,3,4, 2001 P&F Report #8 Cl. (35) July 22, 23 and 24, 2003
	Exhibition Place Reserve Funds Realignment	P&F Report #5 Cl (6) June 24,25,26, 2003
	Homes for the Aged Capital Reserve Fund	Com. Serv Report #7 Cl.(7(a)) Oct 26, 27 and 28, 2004
	Adequacy of Perpetual Care of Landfill Reserve	Works Report #10 Cl. (11(o)) Nov 30, Dec 1 and 2, 2004
Revenues	Development Charges: • Development Charges By-Law • Updated Development Charge Background Study and Proposed Development Charge By-law	P&F Report #4 Cl. (1) July 27, 28, 29, & 30, 1999 P&F Report # 4 Cl. (16) May 18, 19 and 20, 2004
	Corporate Sponsorship, Advertising Sales and Donations Policies	P&F Report No. 4 Cl. (13) May 21, 22 and 23, 2003
	2004 Water & Wastewater Rate Increase, 2005-2006 Rate Strategy & Rate Projections for 2007-2013	P&F Report #2, Cl. (35) Mar 1, 2, 3, 2004
Surplus Management	Policy on Surplus Management	P&F Report #12 Cl. (8) Oct. 3, 2000
	Policy on Management of Operating Budget Surpluses	P&F Report #7 Cl.(17) Sept 28,29,30, 2004
Municipal Performance Measures	Toronto's Results under the Municipal Performance Measurement Program (MPMP) Relative to Other Municipalities (2001 results)	P&F Report #16 Cl. (34) (I) Dec 4,5,6, 2001
	Provincial Requirement to Report 2001 Results under the Municipal Performance Measurement Program (MPMP)	P&F Report #13 Cl. (5) October 1, 2 and 3, 2002
	Toronto's 2001 Results under the Municipal Performance Management Program (MPMP) Relative to Other Municipalities	P&F Report # 1 Cl.(41) (a) February 4, 5 and 6. 2003
	The Provincial Requirement to Report the 2002 Results under the Municipal Performance Measurement Program (MPMP)	P&F Report # 8 Cl. (4) July 22, 23 and 24, 2003
	The Provincial Requirement to Report 2003 Results Under the Municipal Performance Measurement Program (MPMP)	P&F Report # 6 Cl. (20) July 20, 21, 22, 2004
	Status Report on Performance Measurement in the City of Toronto	P&F Report #7 Cl. (36) Sept 28,29,30, 2004 P&F Report # 7Cl. (36a) Oct 26, 27 and 28, 2004.

Appendix E
Listing of Financial Policies & By-laws
As at December 2, 2003

Policy No.	Description	Policy Date	Review Cycle
FS-CF-01	By-law No. 113-2003 – To authorize the temporary borrowing of moneys to meet the current expenditures of the City of Toronto for the year 2003	February 2003	Annually
FS-CF-02	By-law No. 112-2003 – To authorize temporary borrowing to meet expenditures made in connection with work to be financed by the issue of debentures or bank loan agreements for the year 2003	February 2003	Annually
FS-CF-03	Land Transactions Among City Agencies, Boards, Commissions & Departments and Proceeds from Sale of Surplus City-owned Real Property	June 2002	
FS-CF-04	By-law No. 181-2000 – Establishment & use of Reserves & Reserve Funds.	April 2000	
FS-CF-05	Letters of Credit Corporate Guidelines	June 2000	
FS-CF-06	Investment Policy	June 2000	
FS-CF-07	Insurance Claims Administration	March 2000	
FS-CF-08	Use of City Vehicles by Volunteer Organizations.	August 2000	
FS-CF-09	Surplus Management Policy	August 2000	
FS-CF-10	Development Charges - By-law No.476-1999	July 1999	
FS-PPEB-01	Personal Injury Auto Accidents	October 2001	
FS-PPEB-02	Direct Deposit – Management and Non Union Employees	December 2002	
FS-PMMS-01	Restrictions on the Hiring and use of former City of Toronto Management Employees for City Contracts	March 2003	As required or as directed by Council
FS-PMMS-02	Declaration of Non-Discrimination Policy	December 1998	"
FS-PMMS-03	Fair Wage Policy	August 2003	"
FS-PMMS-04	Environmentally Responsible Procurement Policy	October 1999	"
FS-PMMS-05	Canadian Content	July 2000	"
FS-PMMS-06	Departmental Purchase Order Limit	July 2000	"
FS-PMMS-07	Contract Release Orders	July 2002	"
FS-PMMS-08	Live Animal Testing	July 2000	"
FS-PMMS-09	Purchase of Coffee	July 2000	"
FS-PMMS-10	Purchase of Products Manufactured In Factories Where Children Are Used As Slave Labour Or Other Exploitive Circumstances Which Impedes Child Development	July 2000	"
FS-PMMS-11	Purchase of Cellular Telephones	December 2001	"
FS-PMMS-12	Sulphur in Fuels and Purchase of On-Road Diesel for Off-Road Vehicles	February 2001	"
FS-PMMS-13	Requests for Computer Related Purchases	February 2001	"
FS-PMMS-14	Previous Year's Pricing for Purchases	February 2001	"
FS-PMMS-15	Lobbying Disclosure Policy: Certain Requests for Proposals and Tender/Quotation Calls	March 2001	"

Policy No.	Description	Policy Date	Review Cycle
FS-PMMS-16	Financial Implications in Reports Coming Forward from Bid Committee to Council	March 2001	"
FS-PMMS-17	Selection and Hiring of Professional and Consulting Services	December 2001	"
FS-PMMS-18	Interprovincial Fairness Legislation	May 2002	"
FS-PMMS-19	Procurement Activities of the Printing & Distribution Unit into Technical Compliance with Chapter 195	August 2002	"
FS-PMMS-20	Actual Project Budget Related to RFP Documents	August 2002	"
FS-PMMS-21	Engineering Estimates in Reports	October 2002	"
FS-PMMS-22	Disposition of Information Technology Assets	July, 2003	"
FS-PMMS	Purchasing By-law	July 2000	"
FS-RS-01	Municipal Tax Levy By-laws	August 2003	Annually
FS-RS-02	Education Levy	August 2003	Annually
FS-RS-03	Clawback Rates – Capped Property Classes	August 2003	Annually
FS-RS-04	Interim Tax Levy	August 2003	Annually
FS-RS-05	Interest on Overpayment of Taxes	July 2002	Annually
FS-RS-06	Tax Appeals under Sec 357 & 358 of the Municipal Act	August 2003	Annually
FS-RS-07	Taxation on Railway Roadways or Rights of Ways and Power Utility Transmission or Distribution Corridors	August 2003	Annually
FS-RS-08	Levy on Institutions (Heads & Beds)	August 2003	Annually
FS-RS-09*	Property Tax Rebate for Ethno-cultural Centres	August 2003	Annually
FS-RS-10*	Residential Property Class	August 2003	Annually
FS-RS-11*	New Multi-Residential Property Class	August 2003	Annually
FS-RS-12	Tenant Tax Notification	August 2003	Annually
FS-RS-13*	Property Tax Rebate for Veterans' Clubhouses and Legion Halls	August 2003	Annually
FS-RS-14	Credit Balances of $9.99 and under on Inactive Water Accounts	August 2003	Annually
FS-RS-15	Vacancy Rebate Program	August 2003	Annually
FS-RS-16	Scale of Costs	August 2003	Annually
FS-RS-17	Payment Options for Property Taxes	September 2003	Annually
FS-RS-18	Apportionment of Taxes	September 2003	Annually
FS-RS-19	Collection Process for Tax Arrears on Non-Residential Properties	October 2003	Annually
FS-RS-20	Water and Sewage Service Rates	September 2003	Annually
FS-RS-21	Water Billing Frequencies	September 2003	Annually
FS-RS-22	Property Tax Exemption for Exhibition Buildings	September 2003	Annually
FS-RS-23	Airport Authority	September 2003	Annually
FS-RS-24	Collection on Property Tax Arrears for Owner-Occupied Residential Properties	September 2003	Annually
FS-RS-25	Fees for Taxation Documents and Services	September 2003	Annually
FS-RS-26*	Tax Assistance Program for Eligible Low-Income Disabled Persons and Low-Income Seniors	October 2003	Annually
FS-RS-27*	Tax Policy Options – Residential Class (Phase-In) – By-law No. 481-2001	June 2001	
FS-RS-28*	Tax Rebate Program for Registered Charities – By-law No. 429-2001	June 2001	

Policy No.	Description	Policy Date	Review Cycle
FS-AS-01	Financial Information System Access	March 2002	
FS-AS-02	Income Tax Receipts for Cash Donations and Gifts-in-Kind	November 1999	As required by changes in the ITA
FS-AS-03	Financial Control By-law	March 2000	2004
FS-FP-01	Financial Protocols	Pending	

Appendix F

14 Fiscal Sustainability Principles
As contained in Council's Strategic Plan January 2002

1. Infrastructure should be evaluated for replacement when it is no longer cost-effective to maintain in a state of good repair.

2. Investment in new infrastructure should be based on analysis of shifts in demographic growth and existing, unmet needs.

3. Reserves and reserve funds should be used to manage predictable cycles of financing requirements.

4. Reserves and reserve funds should be funded to the levels required for their purpose.

5. Community requirements and public input should assist in determining budget outcomes.

6. Innovative approaches to financing services should be considered.

7. Detailed budgets and annual reviews should be required for multi-year initiatives.

8. User fees should reflect public policy, and be used to manage demand for limited services and recover costs from non-residents.

9. User fees should be flexible, reflecting ability to pay and service delivery costs.

10. Tax increases should be based on service level costs and provide flexibility for taxpayers with limited fixed incomes.

11. Borrowing should occur only for assets that have a long-term useful life.

12. Debt repayment periods should not exceed the useful life of the assets.

13. Capital infrastructure should be funded through the least expensive financing strategy.

14. The cost of servicing new debt should not negatively affect the City's credit rating.

Appendix G
Summary List of Fiscal Principles
(to replace the 14 Fiscal Sustainability Principles as contained in Council's Strategic Plan dated January 2002)

1. All activities should be reviewed in the context of affordability (*new*).

2. All new initiatives should be accompanied by a business case and a timetable for a post-implementation review and/or sunset provision (*new*).

3. The cost of servicing new debt should not negatively affect the City's credit rating which should be maintained at the current level (AA for long-term debt) or higher (*revised based on Council's Strategic Plan January 2002*).

4. Investment in new infrastructure should be based on analysis of shifts in demographic growth and existing unmet needs (*per Council's Strategic Plan January 2002*).

5. Reserves and reserve funds should be used to fund anticipated potential liabilities, stabilizing (smoothing of) revenues and expenditures that are subject to cyclical fluctuations, extraordinarily large purchases, or self-financing on-going activities (*revised based on Council's Strategic Plan January 2002*).

6. Affordability of a tax increase should first be viewed in the context of general inflation and/or the growth in the economy, consistent with the changes in the costs of maintaining or enhancing existing service levels (*new*).

7. Tax increases should be based on service level costs and provide flexibility for taxpayers with limited fixed incomes (*per Council's Strategic Plan January 2002*)

8. Innovative approaches to financing services should be considered before using property tax financing, i.e. property tax is the funding source of the last resort *(new)*.

9. The pricing of user fees should generally take into consideration of the full cost of the service (direct, indirect and the cost of capital) *(new)*.

10. The property tax base should not be used to fund income distributive programs (*new*).

11. Infrastructure should be replaced when it can be demonstrated that the replacement cost and subsequent maintenance cost are less expensive than maintaining the existing asset in a state of good repair over the same period of time (revised based on Council's Strategic Plan January 2002).

12. Debt repayment period should not exceed the useful life of the asset for which the debt is incurred (per Council's Strategic Plan January 2002).

13. Reserves and reserve funds should be funded to the levels required for their purposes (per Council's Strategic Plan January 2002).

In addition, Council adopted the following guiding principles relating to property tax policy in June 2004:

(a) Tax ratios are an important measure of tax fairness and equity between the various property classes. Reasonable targets for tax ratios should be set, and tax policies regarding budgetary levy increases and tax ratio-related tax burden shifts between classes should be made with a view of respecting and achieving these targets over a reasonable period of time.

(b) The current capping regime is ineffective and will prolong historic tax inequities. However, any changes to the capping program in order to facilitate the transition to Current Value Assessment (CVA) should have

regard for maintaining a manageable pace of change for property owners. A longer transition period should be available for those properties facing large increases.

(c) Property tax protection for vulnerable business must be developed in conjunction with any other changes that facilitate the transition to CVA, with a view to achieving equity to the extent possible between various property types, objectivity in defining eligible properties, longer-term stability and certainty for property owners, and transparency in administration.

(d) A view to achieving equity and fairness in tax rates for both the municipal and education portion taxes should be taken. The Province must be encouraged to show its commitment to reduce Toronto's business education tax rate disparity vis-à-vis the surrounding GTA municipalities.